

STEMCELLS INC  
Form PRE 14A  
March 14, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**STEMCELLS, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**STEMCELLS, INC.**

**7707 Gateway Blvd.**

**Newark, California 94560**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be Held on May 5, 2016**

To the Stockholders of STEMCELLS, INC.

Notice is hereby given that the Annual Meeting of Stockholders of StemCells, Inc. ( StemCells or the company ) will be held on Thursday, May 5, 2016, at 2 p.m., local time, at 7707 Gateway Boulevard, Newark, California 94560 for the following purposes:

1. to elect the two Class I directors named in the accompanying proxy materials to serve until the 2019 Annual Meeting of Stockholders;
2. to consider and vote upon a proposal to ratify the selection of Grant Thornton LLP as independent public accountants for the company for the fiscal year ending December 31, 2016;
3. to approve an amendment to the company s certificate of incorporation to effect a reverse stock split of the company s issued and outstanding common stock, as further described in Proposal Number 3;
4. to approve the sale by the company of up to \$16 million in Company common stock, in accordance with a committed equity line purchase agreement, as further described in Proposal Number 4; and
5. to transact any and all other business that may properly come before the meeting.

The Board of Directors has fixed the close of business on Friday, March 11, 2016, as the record date for determining those stockholders who are entitled to notice of, and to vote at, the Annual Meeting of Stockholders and any postponements or adjournments thereof. The stock transfer books will not be closed between the record date and the date of the meeting.

Representation of at least a majority of all outstanding shares of common stock of StemCells is required to constitute a quorum. Accordingly, it is important that your shares be represented at the meeting. This year we are again taking advantage of Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders on the Internet. We believe these rules allow us to provide our stockholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our Annual Meeting.

Please read the proxy materials carefully. All stockholders are invited to attend the Annual Meeting. Your vote is important, and we appreciate your cooperation in considering and acting on the matters presented.

By Order of the Board of Directors,

Kenneth B. Stratton, J.D.

Secretary

March 23, 2016

Newark, California

**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**OF**  
**STEMCELLS, INC.**

The accompanying proxy is solicited on behalf of the Board of Directors of StemCells, Inc. (the company) for use at its annual meeting of stockholders (the Annual Meeting) to be held on Thursday, May 5, 2016, at 2:00 p.m., local time, at the company's headquarters at 7707 Gateway Boulevard, Newark, California 94560. The company will bear the cost of solicitation of proxies. Directors, officers and employees of the company may solicit proxies by telephone, facsimile or in person for no additional compensation. The company will reimburse banks, brokerage firms, proxy solicitors, and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of shares.

The Board of Directors has fixed the close of business on Friday, March 11, 2016, as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting or at any postponement or adjournment thereof. There were 112,507,589 shares of our common stock, \$.01 par value, outstanding on March 11, 2016, each of which is entitled to one vote for each share on the matters to be voted upon.

*Our 2016 Proxy Materials are Available on the Internet.* This year we have again elected to provide access to our proxy materials over the Internet in accordance with rules adopted by the Securities and Exchange Commission. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our stockholders of record and beneficial owners, which will instruct them as to how they may access and review all of the proxy materials on the Internet and how they may submit their proxy on the Internet. We expect to begin delivering the Notice to our stockholders on or about March 23, 2016, our anticipated initial mailing date. Any stockholder wishing to receive a paper copy of our proxy materials can request them from us by following the instructions found in the Notice for requesting such materials, or by calling 1 (800) 579-1639. Requests for a paper copy of our proxy materials should be made on or before April 21, 2016 to facilitate timely delivery.

Stockholders are being asked to vote on four proposals at the company's 2016 Annual Meeting. The proposals to be voted on and related recommendations from the Board of Directors are as follows:

**Proposal Number 1** To elect the two director nominees named in this proxy statement to serve as Class I directors on the Board until our 2019 annual meeting of stockholders or until that person's successor is duly elected and qualified. The Board of Directors recommends that you vote **FOR** each of the nominees.

**Proposal Number 2** To ratify the appointment of Grant Thornton LLP as the company's independent registered public accounting firm for the fiscal year ending December 31, 2016. The Board of Directors recommends that you vote **FOR** this proposal.

**Proposal Number 3** To approve an amendment to the company's certificate of incorporation, as further described in Proposal Number 3, to effect a reverse stock split of the company's issued and outstanding common stock and to authorize the Board of Directors to effect this amendment to the certificate of incorporation, within the Board's discretion, at any time within three months after the date stockholder approval for the reverse stock split is obtained, with the exact exchange ratio and timing of the reverse stock split (if at all) to be determined at the discretion of the Board of Directors. The Board of Directors recommends that you vote **FOR** this proposal.

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Proposal Number 4 To approve the sale by the company of up to \$16 million in company common stock, in accordance with a committed equity line purchase agreement, as further described in Proposal Number 4, and

to authorize the Board of Directors, within its discretion, to enter into this agreement at any time (if at all) within three months after the date stockholder approval for the equity line is obtained.

In the election of directors, which is Proposal Number 1, you may vote **FOR** both of the nominees or your vote may be **WITHHELD** with respect to one or both of the nominees. For Proposal Number 2, Proposal Number 3 and Proposal Number 4, you may vote **FOR**, vote **AGAINST** or **ABSTAIN**. If you **ABSTAIN** as to Proposal Number 2 and Proposal Number 4, the abstention will have no effect. If you **ABSTAIN** as to Proposal Number 3, the abstention has the same effect as a vote **AGAINST** the proposal.

Shares of our common stock represented by proxies in the form enclosed that are properly executed and returned to us and not revoked will be voted as specified in the proxy by the stockholder. In the absence of contrary instructions, or in instances where no specifications are made, the shares will be voted:

(i) **FOR** the election as directors of the nominees as described herein under **Proposal Number 1 Election of Directors;**

(ii) **FOR** ratification of the selection of accountants as described herein under **Proposal Number 2 Ratification of Selection of Independent Public Accountants;**

(iii) **FOR** the proposal to approve an amendment to the company's certificate of incorporation, as described herein, to effect a reverse stock split of the company's authorized, issued and outstanding common stock (the **Reverse Stock Split**), as described herein under **Proposal 3 Approval of Amendment to the Company's Certificate of Incorporation to Effect a Reverse Stock Split;**

(iv) **FOR** the proposal to approve the sale by the company of up to \$16 million in company common stock, as described herein under **Proposal 4 Approval of \$16 Million Equity Line Financing;** and

(v) in the discretion of the named proxies as to any other matter that may properly come before the Annual Meeting.

Any stockholder signing and delivering a proxy may revoke it at any time before it is voted by delivering to the company's corporate secretary a written revocation or a duly executed proxy bearing a date later than the date of the proxy being revoked. Any stockholder attending the Annual Meeting in person may revoke his, her or its proxy and vote his, her or its shares at the Annual Meeting.

***How to vote shares at our 2016 Annual Meeting.***

This year, company stockholders may cast their vote in any of the following ways:

***Vote by Internet.*** Any stockholder can vote over the Internet at [www.proxyvote.com](http://www.proxyvote.com) by following the instructions on the Notice or proxy card. Internet voting facilities for stockholders of record will be available 24 hours a day and will close at 11:59 p.m. (EDT) on May 4, 2016.

***Vote by Mail.*** Any stockholder that receives proxy materials by mail can vote by mail by signing, dating and mailing the enclosed proxy card in the postage-paid envelope provided. If the envelope is missing, such a stockholder can mail the completed proxy card or voting instruction card to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, New York 11717. The completed card must be received no later than May 4, 2016.

*Voting at the Annual Meeting.* All company stockholders are invited to attend the Annual Meeting in person. Any stockholder that attends the meeting in person may deliver a completed proxy card in person or vote by completing a ballot, which will be available at the meeting. However, each stockholder intending to vote in person at the Annual Meeting should note that if his, her or its shares are held in the name of a bank, broker or other nominee, such stockholder must obtain a legal proxy, executed in his, her or its favor, from the holder of record to be able to vote at the Annual Meeting. Stockholders should allow enough time prior to the Annual Meeting to obtain this proxy from the holder of record, if needed.

The shares voted electronically or represented by the proxy cards received, properly marked, dated, signed and not revoked, will be voted at the Annual Meeting.

### **QUORUM, REQUIRED VOTES AND METHOD OF TABULATION**

Consistent with Delaware law and the company's amended and restated by-laws, a majority of the votes entitled to be cast on a particular matter, present in person or represented by proxy, constitutes a quorum as to such matter. The company will appoint one or more election inspectors for the meeting to count votes cast by proxy or in person at the Annual Meeting.

If you hold shares beneficially in street name and do not provide your broker or nominee with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions have not been given. This year if you hold shares beneficially in street name and do not vote your shares, your broker or nominee can vote your shares at its discretion only on Proposal Number 2. In tabulating the voting result for any proposal for which the required vote is based on the number of shares present, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of Proposal Number 1 or Proposal Number 4 provided a quorum is established.

#### ***What vote is required to approve each item?***

Election of directors by stockholders, which is Proposal Number 1, will be determined by a plurality of the votes cast by the stockholders entitled to vote at the election that are either present in person or represented by proxy.

For Proposal Number 2 and Proposal Number 4, the affirmative **FOR** vote is required by the holders of a majority of the shares present at the Annual Meeting in person or by proxy and voting. Abstentions will have no effect on the outcome of this proposal.

For Proposal Number 3, the affirmative **FOR** vote is required by the holders of a majority of the shares outstanding as of the record date for the 2016 Annual Meeting. For this reason, any abstentions would be the equivalent of a vote against the proposal.

Management does not know of any matters to be presented at this year's Annual Meeting other than those set forth in this proxy statement and in the notice accompanying this proxy statement. Stockholders will have no appraisal rights under Delaware law with respect to any of the matters expected to be voted on at the Annual Meeting. If other matters should properly come before the meeting, the proxy holders will vote such matters in their discretion. Any stockholder has the right to revoke his, her or its proxy at any time until it is voted.



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table shows the number of shares of our common stock beneficially owned, as of March 1, 2016, by (i) each of our directors, (ii) each of our named executive officers, (iii) all of our current directors and executive officers as a group, and (iv) all those known by us to be to a beneficial owner of more than 5% of the company's common stock. In general, beneficial ownership refers to shares that an individual or entity has the power to vote or dispose of, and any rights to acquire common stock that are currently exercisable or will become exercisable within 60 days of March 1, 2016. Unless otherwise indicated, we believe that each person named below, based on information furnished by such owner, holds sole investment and voting power (or shared voting power with affiliated entities) with respect to such shares, subject to community property laws where applicable. We calculated percentage ownership in accordance with the rules of the SEC. The percentage of common stock beneficially owned is based on 112,507,589 shares outstanding as of March 1, 2016. In addition, shares issuable pursuant to options, restricted stock units or other convertible securities that may be acquired within 60 days of March 1, 2016 are deemed to be issued and outstanding and have been treated as outstanding in calculating and determining the beneficial ownership and percentage ownership of those persons possessing those securities, but not for any other persons.

Name and Address of Beneficial Owner*	Amount and Nature of Beneficial Ownership	Percentage of Class Beneficially Owned
<b>Directors and Named Executive Officers</b>		
Eric Bjerkholt(1)	131,417	**
R. Scott Greer(2)	143,841	**
Ricardo Levy(3)	116,691	**
Ian Massey(4)	17,059	**
Greg Schiffman(5)	187,956	**
John Schwartz(6)	200,463	**
Ken Stratton(7)	177,883	**
Alan Trounson(8)	108,253	**
Irving Weissman(9)	389,340	**
All current directors and executive officers as a group	1,472,903	1.30%
<b>5% Stockholders</b>		
Sabby Management, LLC(10)	4,934,100	4.39%

\* The address of all directors and executive officers listed in the table is c/o StemCells, Inc., 7707 Gateway Blvd., Newark, California 94560.

\*\* Less than one percent

(1) Includes 4,000 shares issuable upon exercise of fully vested stock options. Includes outright ownership of 127,417 shares.

(2) Includes outright ownership of 143,841 shares.

(3) Includes 3,000 shares issuable upon exercise of fully vested stock options. Includes outright ownership of 55,438 shares.

- (4) Includes outright ownership of 17,059 shares in Mr. Massey's 401(k) plan.
- (5) Includes outright ownership of 170,051 shares and 17,905 shares in Mr. Schiffman's 401(k) plan.
- (6) Includes 4,000 shares issuable upon exercise of fully vested stock options. Includes outright ownership of 196,463 shares.
- (7) Includes 15,000 shares issuable upon exercise of 15,000 fully vested stock options. Includes outright ownership of 127,273 shares and 35,610 shares in Mr. Stratton's 401(k) plan.

- (8) Includes outright ownership of 108,253 shares.
- (9) Includes 3,000 shares issuable upon exercise of fully vested stock options. Includes outright ownership of 363,869 shares, 22,471 shares held in trust 10,508 of which Dr. Weissman disclaims beneficial ownership.
- (10) Represents (i) Sabby Healthcare Master Fund, Ltd. and Sabby Volatility Master Fund, Ltd. beneficially own 3,634,100 and 1,300,000 shares of our common stock, respectively, representing approximately 3.34% and 1.19% of our outstanding common stock, respectively, and (ii) Sabby Management, LLC and Hal Mintz each beneficially own 4,934,100 shares of our common Stock, representing approximately 4.53% of our outstanding common stock. Sabby Management, LLC and Hal Mintz do not directly own any shares of our common stock, but each indirectly owns 4,934,100 shares of our common stock. Sabby Management, LLC, a Delaware limited liability company, indirectly owns 4,934,100 shares of our common stock because it serves as the investment manager of Sabby Healthcare Volatility Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd., Cayman Islands companies. Mr. Mintz indirectly owns 4,934,100 shares of our common stock in his capacity as manager of Sabby Management, LLC.

### Board of Directors

We currently have seven directors serving on our Board of Directors (our Board). In January 2016, Martin McGlynn resigned as the company's chief executive officer and as a director of the company. Concurrent with this, the Board appointed Ian Massey, D.Phil., as Mr. McGlynn's successor and appointed Dr. Massey to the Board. The following table shows the names, ages, principal occupations, and public company board memberships for the last five years of our directors, as of March 1, 2016:

Eric Bjerkholt	56	Eric Bjerkholt was elected to the Board of Directors in March 2004. He is Executive Vice President, Corporate Development and Finance, and Chief Financial Officer of Sunesis Pharmaceuticals, Inc., a biopharmaceutical company. Mr. Bjerkholt is a member of the board of directors of Ambrx, Inc. and Corium International, Inc.
R. Scott Greer	57	R. Scott Greer was appointed to the Board of Directors in June 2010. He is currently a principal and managing director of Numeror Ventures LLC, which he founded in 2002 to provide funding and strategic advisory services to early stage enterprises. Mr. Greer currently serves on the boards of Nektar Therapeutics, Inogen, Inc., Sientra, Inc., and Versartis, Inc.
Ricardo Levy, Ph.D.	71	Ricardo Levy, Ph.D. was elected to the Board of Directors in September 2001. He currently serves as chair of the board of directors of NovoDynamics, Inc., a private company focused on advanced image discovery and

predictive analytics.

Ian Massey, D.Phil.

65

Ian J. Massey, D.Phil., was elected to the Board of Directors in January 2016. He is President and Chief Executive Officer of the company, a position he has held since January 2016.

5

John Schwartz, Ph.D.	81	John Schwartz, Ph.D., was elected to the Board of Directors in December 1998 and was elected Chairman of the Board at the same time. He is currently President of Quantum Strategies Management Company, a registered investment advisor.
Alan Trounson, Ph.D.	70	Alan Trounson, Ph.D., was appointed to the Board of Directors in July 2014. He was the President of the California Institute for Regenerative Medicine from January 2008 until May 2014.
Irving Weissman, M.D.	76	Irving Weissman, M.D., was elected to the Board of Directors in September 1997. He is the Virginia and Daniel K. Ludwig Professor of Cancer Research, Professor of Pathology and Professor of Developmental Biology at Stanford University and the Director of the Institute of Stem Cell Biology and Regenerative Medicine at Stanford.

Because we have a classified board, with each of our directors serving a staggered three-year term, only two of our directors are standing for reelection at our 2016 Annual Meeting. The following table shows the current composition of the three classes of our Board:

Class I Directors (terms scheduled to expire in 2016, but nominated to stand for reelection at our 2016 Annual Meeting):

Eric Bjerkholt  
R. Scott Greer

Class II Directors (terms scheduled to expire in 2017):

Ricardo Levy, Ph.D.  
Alan Trounson, Ph.D.  
Irving Weissman, M.D.

Class III Directors (terms scheduled to expire in 2018)

Ian Massey, D.Phil.  
John Schwartz, Ph.D.

The independent members of our Board, as determined by the Board of Directors in accordance with the existing Nasdaq Listing rules, are Messrs. Bjerkholt and Greer and Drs. Levy, Trounson and Schwartz. The Board of Directors held six regular meetings during the fiscal year ended December 31, 2015. Each of our directors attended more than 75% of the meetings of the Board of Directors and of the committees on which he served, with the exception of Dr. Trounson, who attended only one meeting of the Strategic Transaction Committee in 2015. While we encourage our

directors to attend the company's annual stockholder meeting, we do not have a policy requiring that they do so. Two of our directors attended the company's 2015 annual stockholder meeting.

For many years, the roles of chairman and chief executive officer at the company have been separated. We believe that this is appropriate under current circumstances, because it allows management to make the operating decisions necessary to manage the business, while helping to maintain Board independence so that it can provide an effective oversight function. We feel that this has provided an appropriate balance of operational focus, flexibility and oversight. Our independent directors meet at regularly scheduled executive sessions without members of management.

## Board Committees

Presently, the Board has four standing committees – the Audit Committee, the Compensation and Stock Option Committee (the Compensation Committee), the Corporate Governance and Nominating Committee (the Corporate Governance Committee), and the Strategic Transactions Committee – as well as a single-member committee established under the company's 2006 and 2013 equity incentive plans and the Company's 2012 Commencement Incentive Plan. All members of the Audit Committee, the Compensation Committee, and the Corporate Governance Committee are, and are required by the charters of the respective committees to be, independent as determined under Nasdaq Listing rules.

*Audit Committee.* The Audit Committee is composed of Mr. Bjerkholt and Drs. Schwartz and Levy. The Audit Committee held five meetings during the fiscal year ended December 31, 2015. The primary function of the Audit Committee is to assist our Board in fulfilling its oversight responsibilities. The committee does this primarily by reviewing our financial reports and other financial information as well as the company's systems of internal controls regarding finance, accounting, legal compliance, and ethics that management and the Board have established. The committee also assesses our auditing, accounting and financial processes more generally. The Audit Committee meets at least quarterly, and at such other times as it finds necessary. It recommends to our Board the appointment of a firm of independent auditors to audit the financial statements of the company and meets with such personnel of the company to review the scope and the results of the annual audit, the amount of audit fees, the company's internal accounting controls, the company's financial statements contained in this proxy statement, and other related matters. Each of the members of the Audit Committee is independent, and the Board has determined that Mr. Bjerkholt is an audit committee financial expert, as defined in SEC rules. The Audit Committee acts pursuant to a written charter which is available through our website at [www.stemcellsinc.com](http://www.stemcellsinc.com).

*Compensation Committee.* The Compensation Committee is composed of Drs. Schwartz and Levy and Mr. Bjerkholt. The Compensation Committee held three meetings during the fiscal year ended December 31, 2015. The Compensation Committee makes recommendations to our Board and management concerning salaries in general, determines executive compensation and, except to the extent that such decisions have been delegated to, and made by, the single-member committee, approves incentive compensation for our employees and consultants. The Compensation Committee acts pursuant to a written charter which is available through our website at [www.stemcellsinc.com](http://www.stemcellsinc.com).

*Corporate Governance Committee.* Since April 2014, the Corporate Governance Committee has been composed of Drs. Levy and Schwartz and Mr. Greer. The Corporate Governance Committee held one meeting in 2015 to discuss a slate of actual and potential nominees to the Board of Directors. The committee oversees nominations to the Board and considers the experience, ability and character of potential nominees to serve as directors, as well as particular skills or knowledge that may be desirable in light of the company's position at any time. From time to time, the committee has engaged the services of a paid search firm to help the committee identify potential nominees to the Board. The company's Corporate Governance Committee and Board seek to nominate and appoint candidates to the Board who have significant business experience, technical expertise or personal attributes, or a combination of these, sufficient to suggest, in the Board's judgment, that the candidate would have the ability to help direct the affairs of the company and enhance the Board as a whole. The Committee may identify potential candidates through any reliable means available, including recommendations of past or current members of the Board from their knowledge of the industry and of the company. The Committee also considers past service on the Board or on the board of directors of other publicly traded or technology focused companies. The committee has not adopted a formulaic approach to evaluating potential nominees to the Board; it does not have a formal policy concerning diversity, for example. Rather, the committee weighs and considers the experience, expertise, intellect, and judgment of potential nominees irrespective of their race, gender, age, religion, or other personal characteristics. The committee often looks for nominees that can





bring new skill sets or diverse business perspectives. Potential candidates recommended by security holders will be considered as provided in the company's Policy Regarding Shareholder Candidates for Nomination as a Director, which sets forth the procedures and conditions for such recommendations. This policy is available through our website at [www.stemcellsinc.com](http://www.stemcellsinc.com). The Corporate Governance Committee operates pursuant to a written charter, a copy of which is also available through our website at [www.stemcellsinc.com](http://www.stemcellsinc.com).

The members of the Corporate Governance Committee have approved the nomination of the Class I directors standing for reelection at our 2016 Annual Meeting.

**Strategic Transactions Committee.** The Strategic Transactions Committee is composed of Messrs. Bjerkholt and Greer and Drs. Levy and Trounson. The Strategic Transactions Committee held five meetings during the fiscal year ended December 31, 2015. The Strategic Transactions Committee was created at the suggestion of our Chief Executive Officer in March 2009 to provide advice and direction, on an *ad hoc* basis, on a range of strategic initiatives being considered at the time. The Strategic Transactions Committee does not have a formal charter. However, the Board of Directors has authorized the Strategic Transactions Committee to be available to advise, consult and participate with management, as requested by the company's Chief Executive Officer, with respect to the identification, implementation, evaluation, and negotiation of potential strategic corporate transactions. Since June 2010, the Strategic Transactions Committee has been the Board's fourth standing committee, and as such it routinely provides recommendations both to management and to the full Board with regard to such matters as the Strategic Transactions Committee may deem advisable.

The following table shows the members of our four standing Board committees:

<b>Director</b>	<b>Independent</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Corporate Governance Committee</b>	<b>Strategic Transactions Committee</b>
Eric Bjerkholt	Yes	Chair	ü		ü
R. Scott Greer	Yes			ü	Chair
Ricardo Levy, Ph.D.	Yes	ü	ü	Chair	ü
Ian Massey, D.Phil.	No				
John Schwartz, Ph.D.	Yes	ü	Chair	ü	
Alan Trounson, Ph.D.	Yes				ü
Irving Weissman, M.D.	No				

#### **Director Oversight and Qualifications**

While management is responsible for the day-to-day management of the risks the company faces, the Board, as a whole and through its committees, has responsibility for the oversight of risk management. An important part of risk management is not only understanding the risks facing the company and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. In support of this oversight function, the Board receives regular reports from our Chief Executive Officer and members of senior management on operational, financial, legal, and regulatory issues and risks. The Audit Committee additionally is charged under its charter with oversight of financial risk, including the company's internal controls, and it receives regular reports from management, the company's internal auditors and the company's independent auditors. The chairman of the Board and independent members of the Board work together to provide strong, independent oversight of the company's management and affairs through its standing committees and, when necessary, special meetings of directors.



We believe each of our directors brings valuable skills, experience, judgment, and perspectives to our company. The Board took the following qualifications into consideration, among other things, when nominating or appointing our current directors:

Eric Bjerkholt

Mr. Bjerkholt is a financial expert and currently serves as the Executive Vice President, Corporate Development and Finance, and Chief Financial Officer of Sunesis Pharmaceuticals, Inc., a biopharmaceutical company. His business experience spans more than 20 years, during which time he founded a nutraceutical company and worked as an investment banker. Mr. Bjerkholt currently serves on the board of directors of Ambrx, Inc. and Corium International, Inc. We believe Mr. Bjerkholt's qualifications to serve on our Board of Directors include his considerable financial and business experience, especially in the life sciences industry. Mr. Bjerkholt has served on our Board for over twelve years.

R. Scott Greer

Mr. Greer was appointed to our Board in June 2010. He is a financial expert with over 25 years of experience in the life sciences industry. He was founder, CEO and Chairman of Abgenix, Inc., a biotechnology company he took public in 1998 and then sold to Amgen in 2006. Mr. Greer currently serves on the boards of Nektar Therapeutics, Inogen, Inc., Sientra, Inc., and Versartis, Inc. We believe Mr. Greer's qualifications to serve on our Board include his more than 25 years of experience in the life sciences industry.

Ricardo Levy, Ph.D.

Dr. Levy was elected to the Board in September 2001. He currently serves as chair of the board of directors of NovoDynamics, Inc., a private company focused on advanced image discovery and predictive analytics, and on the Advisory Board of Santa Clara University's Miller Center for Social Entrepreneurship. He is a lecturer at the Stanford University Chemical Engineering Department. We believe his qualifications to serve on our Board of Directors includes his more than 40 years of business experience. Dr. Levy has served on our Board for over thirteen years.

Ian Massey, D.Phil.

Dr. Massey has been our Chief Executive Officer since January 2016. From March 2015 until January 2016, he served as our President and Chief Operating Officer. Before joining the company, Dr. Massey served as Chief Operating Officer and President of U.S. Operations of Biotie Therapies Corporation. In 2006, Dr. Massey was the co-founder, President and Chief Executive Officer of Synosia Therapeutics. Dr. Massey's prior experience in the pharmaceutical industry included over 25 years first with Syntex and then with Roche, where he held positions of increasing responsibility culminating in Sr. Vice President and Head of Research and Preclinical Development of Roche Palo Alto.

John Schwartz, Ph.D.

Dr. Schwartz has over 40 years of business and legal experience, including several years spent in the 1990s as President and Chief Executive Officer of Systemix, Inc., a cell-based therapeutics company which was acquired by Novartis in 1997. Before joining Systemix as its

Senior Vice President and General Counsel in 1993, Dr. Schwartz served as the Vice President and General Counsel of Stanford University. He currently runs a registered investment advisor firm called Quantum Strategies Management Company. We believe Dr. Schwartz's qualifications to serve on our Board of Directors include his over 40 years of business and legal experience in our industry. Dr. Schwartz has served on our Board for over seventeen years.

Alan Trounson, Ph.D.

Dr. Trounson was elected to our Board in July 2014. He most recently served as President of the California Institute for Regenerative Medicine (CIRM) from 2008 until 2014. Dr. Trounson is acting Chief Executive Officer of the start-up company Cartherics Pty. Ltd. He is also currently a member of the scientific advisory boards of Cord Blood Registry, Cytomatrix Pty Ltd., and Auxogyn, Inc. He was the Director of the Monash Immunology and Stem Cell Laboratories, located in Melbourne, from 2004 until 2007. From 2003 to 2006, Dr. Trounson was the founder and executive vice-chairman of the Australian Stem Cell Centre. We believe Dr. Trounson's qualifications to serve on our Board include his more than 35 years of experience in the life sciences industry.

Irving Weissman, M.D.

Dr. Weissman has been a leader in the stem cell field for over 25 years. He is a professor at Stanford University and serves as the director of the Stanford Institute for Stem Cell Biology and Regenerative Medicine. He co-founded Systemix in 1988 and Cellerant Therapeutics, Inc., a hematopoietic stem cell development company, in 2001. He is a member of several scientific advisory boards and national science institutes, including the National Academy of Science, the American Academy of Arts and Science, and the Institute of Medicine of the National Academy of Sciences. We believe Dr. Weissman's qualifications to serve on our Board of Directors include the fact that he has been a leader in stem cell research for over 25 years as well as his substantial business experience in our industry. Dr. Weissman has served on our Board for over eighteen years and serves as the chairman of our Scientific Advisory Board.

Stockholders who wish to communicate with our Board of Directors or with a particular director may send a letter to our corporate secretary at the following address: StemCells, Inc., 7707 Gateway Blvd., Newark, California 94560 (c/o Legal Department). Any communication should clearly specify that it is intended to be made to the entire Board or to one or more of our directors. Our corporate secretary will review all such correspondence and forward to our Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the secretary, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. The secretary maintains a log of all correspondence received by us that is addressed to members of the Board, and any director may at any time review and request copies of any such correspondence.

Concerns relating to accounting, internal controls or auditing matters will immediately be brought to the attention of the chairman of the Audit Committee and handled in accordance with established procedures, which are set out in the Audit Committee's Policy on Receipt, Retention and Treatment of Complaints Regarding Accounting, Internal Controls and Auditing Matters. A copy of this policy is available through our website at [www.stemcellsinc.com](http://www.stemcellsinc.com).

### **Executive Officers, Positions Held**

Throughout 2015, our Chief Executive Officer was Martin McGlynn. However, Mr. McGlynn resigned in January 2016. His successor, Dr. Ian Massey, became our President and Chief Executive Officer on January 18, 2016. Prior to this, Dr. Massey was our President and Chief Operating Officer.

Following are the name, age and other information for our named executive officers, as of March 1, 2016. All company officers have been elected to serve until their successors are elected and qualified or until their earlier resignation or removal.

Ian Massey, D.Phil. President and Chief Executive Officer	65	Ian J. Massey, D.Phil., joined the company in March 2015 as the company's President and Chief Operating Officer. He was appointed President and Chief Executive Officer of the company and elected to our Board of Directors in January 2016. Prior to joining the company, Dr. Massey served as Chief Operating Officer and President of U.S. Operations of Biotie Therapies Corporation, a publicly traded Finnish company focused on neurodegenerative and psychiatric disorders. In 2006, Dr. Massey was the co-founder, President and Chief Executive Officer of Synosia Therapeutics. Dr. Massey's prior experience in the pharmaceutical industry included over 25 years, first with Syntex and then with Roche, where he held positions of increasing responsibility culminating in Sr. Vice President and Head of Research and Preclinical Development of Roche Palo Alto.
Greg Schiffman Chief Financial Officer and Executive Vice President of Finance	58	Greg Schiffman joined the company in January 2014 as Chief Financial Officer and Executive Vice President of Finance, with responsibility for corporate financial management, financial reporting and controls, investor relations, corporate communications, and information technology. Prior to joining StemCells, Mr. Schiffman served as Executive Vice President and Chief Financial Officer of Dendreon Corporation. From 2006 to 2009, Mr. Schiffman served as a director of VNUS Technologies, Inc. In November 2014, Dendreon Corporation filed for Chapter 11 bankruptcy protection.
Ken Stratton, J.D. General Counsel	47	Ken Stratton, J.D., joined the company in February 2007 as General Counsel, with responsibility for corporate compliance and legal affairs. In March 2008, he assumed responsibility for the Human Resources function. Prior to joining StemCells, Mr. Stratton served as Deputy General Counsel for Threshold Pharmaceuticals and as Senior Legal Counsel for Medtronic, Inc.'s Vascular business unit.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires our executive officers, directors, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC reports of ownership of our securities and changes in reported ownership. Executive officers, directors and greater than 10% beneficial owners are required by SEC rules to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of the copies of such forms furnished to us, or written representations from the reporting persons that no Form 5 was required, we believe that, during the fiscal year ended December 31, 2015, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners have been met.

## **Code of Business Conduct and Ethics**

We have adopted a Code of Ethics and Conduct that applies to all of our directors, officers, employees, and consultants. A copy of our code of ethics is posted on our website at [www.stemcellsin.com](http://www.stemcellsin.com). We intend to disclose any substantive amendment or waivers to this code on our website. There were no substantive amendments or waivers to this code in 2015.

## ***EXECUTIVE COMPENSATION***

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the foregoing Compensation Discussion and Analysis, as required by Item 402(b) of Regulation S-K. Based on this review and discussion, the Compensation Committee has recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and our Annual Report on Form 10-K for the fiscal year ending December 31, 2015.

### **Compensation Discussion and Analysis**

We structure our compensation programs to attract and retain talented employees and reward them for helping us achieve our short-term and long-term goals. We intend for our compensation programs to be equitable and competitive when measured against those offered by companies against whom we compete for high-level scientific and executive personnel. We also intend for them to link pay to both company and individual performance.

In seeking to accomplish these objectives, we follow a compensation strategy designed, ultimately, to reward increasing stockholder value. However, because achievement of our principle mission – the research, development and commercialization of stem cell therapeutics – is a long, expensive and challenging process, we often set individual compensation by using surrogate endpoints to gauge employee contributions towards building sustained stockholder value, such as:

the achievement of stated corporate goals adopted from time to time by the Board;

the leadership an executive officer has shown in inspiring and marshaling excellent performances in his or her direct reports;

the anticipation, identification and successful disposition of issues and problems that, if not addressed timely and effectively, might have a deleterious effect on the company; and

the speed and effectiveness with which an executive officer discovers, assesses and, where appropriate, pursues promising opportunities for the company.

*Compensation elements.* We, like most biotechnology companies, use a combination of base salary, bonuses and equity awards to compensate our employees, including our executive officers. As a small company – we have approximately 55 employees in total and only three executive officers – we feel that having so few people in each job classification and level makes it inefficient to establish a formulaic allocation of total compensation among its various elements; we rely, instead, on our experience and judgment.

In exercising this judgment, we periodically collect and review information (i) from third party market reports such as the *Radford Biotechnology Survey Executive Report*; and (ii) from the proxy statements of other similar biotechnology companies, especially those operating in the San Francisco Bay Area, as well as those pursuing cell-



based therapeutics.<sup>1</sup> In the case of the executive officers who report directly to our chief executive officer, we also carefully consider the recommendations of our chief executive officer when setting compensation. We integrate all of this information with our evaluation of the individual performance of each of our executive officers.

While we believe our officers and other employees are outstanding, we realize that the company is not yet profitable and that it is still in a relatively early stage of development. We therefore generally prefer to target our compensation practices so that our employees' base salaries, bonuses, equity compensation, and benefits all fall close to the 50th percentile paid by comparable companies for similar positions. Actual compensation may fall slightly above or below these targets, however, because of any number of factors such as general economic conditions, market competition for specific jobs, personal performance, and the need for internal equities within the company. For example, from time to time, we have paid many of our employees, including some of our executive officers, at below the 50th percentile because of poor economic conditions generally or periods of difficult fundraising markets for biotechnology companies. At the same time, however, we have paid many of our employees, including some of our executive officers, at above the 50th percentile because of highly competitive demand for workers with their unique skill sets.

*Interaction of compensation elements.* The basic compensation elements—base salary, bonuses and equity awards—are, as noted, standard in our industry. Though not set independently of one other, we use each element as a portion of total compensation because we believe we would not otherwise be competitive and because we feel that together they are the proper components of a balanced compensation package:

base salary is compensation for current efforts;

bonuses, whether in cash or equity, are paid at the Board's discretion typically for achievements in meeting or exceeding corporate goals; and

equity awards are inducements to remain with the company and to build future value.

On occasion, we have considered our employee compensation programs, including our executive compensation programs, and the effect they may have on company risk. We have concluded that our employee compensation programs are simple and straight-forward and consistent with those of similarly situated research and development companies. In determining that our compensation policies and practices do not present risks that are likely to have a material adverse effect on our business, our directors have, from time to time, discussed with management the various pay practices used to compensate our employees at both the executive and non-executive levels. These inquiries have included discussions about our three primary components of compensation, namely base compensation, cash bonuses and equity incentive compensation.

Our Board of Directors has also periodically considered how bonus awards are determined and calculated by the company, noting that all bonuses are awarded entirely at the discretion of our Board after taking into consideration the progress of our company's programs. Based on its review, our Board has concluded that our bonus program properly aligns compensation with our overall goals, all of which are designed to have a positive impact on our business.

In addition, our Board has periodically examined our equity compensation practices, noting that we typically grant customary equity awards that vest over many years after the date of grant. We believe discretionary compensation that vests over multiple years does not encourage short-term or high-risk

<sup>1</sup> In June 2013, for example, we considered the following companies as being close comparables for purposes of evaluating executive compensation: Aastrom Biosciences, Inc.; Advanced Cell Technology, Inc.; Athersys, Inc.; BioCryst Pharmaceuticals, Inc.; BioTime, Inc.; Cel-Sci Corporation; Cytokinetics, Incorporated; Cytori Therapeutics, Inc.; Geron Corporation; Medicinova, Inc.; Neostem, Inc.; Neuralstem, Inc.; Nova Bay Pharmaceuticals, Inc.; Osiris Therapeutics, Inc.; and Sangamo Biosciences, Inc.

opportunistic behavior and instead aligns our employees' interests with the long-term interests of our stockholders by encouraging activities intended to build long-term value for the company.

For these reasons, we have concluded that our employee compensation programs are designed with the appropriate balance of risk and reward in relation to our company's overall business strategy and do not incentivize executives or other employees to take unnecessary or excessive risks. As a result, we believe that risks arising from our employee compensation policies and practices are not reasonably likely to have a material adverse effect on the company.

*Other compensation elements and benefits.* We offer all employees various health and welfare benefit plans. Our executive officers may participate in these on the same terms as other employees. We do not have a pension plan nor do we use non-qualified deferred compensation.<sup>2</sup> We offer our employees (again, including executive officers on the same terms as others) a 401(k) defined contribution plan, and match employee contributions on a 1:2 basis (i.e., \$1 contribution by the company for every \$2 contribution made by the employee) up to a maximum of 3% of the employee's salary, subject to legal limitations. At this time, our 401(k) match is made in the form of shares of common stock in the company.

### **Compensation of Named Executive Officers**

*Base salary compensation; target bonuses.* We consider base salary to be a critical component of our executive officers' overall compensation packages. We intend the salaries of our executive officers to reflect their actual responsibilities and job scope. We also endeavor to set base compensation levels so that their salaries are competitive with salaries paid by comparable companies to employees with similar experience, taking into account the cost of living in the San Francisco Bay Area. Accordingly, we have made occasional adjustments to the salaries of certain employees to address perceived below market anomalies, address specific retention concerns or reward special contributions made to the company.

In addition to base salary, each employee of the company, including each of our named executive officers, is given a personal target bonus (calculated as a percentage of base salary), based upon factors such as seniority, job title and the existing targets of co-workers with comparable job responsibilities within the company. Bonuses at the company are discretionary and awarded by the Board in its sole discretion. But when bonuses are awarded, we use the personal target of each employee to calculate his or her bonus amount.

With these various principles in mind, we recently took the following actions with respect to the base compensation and bonus targets of certain named executive officers: (i) effective June 17, 2013, we increased Mr. McGlynn's base salary to \$570,000 from \$550,000 in recognition of contributions made on behalf of the company and market factors; (ii) effective June 17, 2013, we increased Mr. Stratton's base salary to \$320,000 from \$300,000 in recognition of contributions made on behalf of the company and market factors; (iii) effective January 18, 2016, we increased Dr. Massey's base salary from \$380,000 to \$520,000 upon his promotion to Chief Executive Officer in recognition of increased job responsibilities, and (iv) effective January 25, 2016, we increased Mr. Stratton's base salary to \$340,000 from \$320,000 in recognition of contributions made on behalf of the company and market factors. We made no changes to executive officer compensation in 2014 or 2015.

*Bonus compensation.* We view periodic bonuses, whether paid in cash or equity, as an important element of compensation for several reasons. Bonuses help align individual employee efforts with overall corporate strategies and objectives. Bonuses also help us manage salary expense, while still allowing us to reward successes. By using discretionary bonuses as part of the compensation mix, we have greater flexibility in managing the timing and amounts of compensation. Accordingly, each year we estimate for planning purposes an aggregate bonus pool, which is calculated by using the base salaries of all our employees and their respective

<sup>2</sup> Accordingly, we omit tables showing pension benefits and non-qualified deferred compensation.

target bonuses, and which assumes the Board will elect to award each employee 100% of his or her personal target bonus amount for the year. However, as explained below, the actual bonus award for any particular year is entirely within the Board's discretion.

From July 2013 through 2015, we did not change the base compensation or target bonus of any of our existing executive officers. However, Mr. Schiffman, our Chief Financial Officer, joined the company on January 1, 2014 and Dr. Massey joined the company on March 23, 2015, as our President and Chief Operating Officer. In January 2016, Dr. Massey became our President and Chief Executive Officer and the company increased his base salary and target bonus at that time in recognition of his new roles and responsibilities.

Accordingly, the base compensation and target bonus information for our current executive officers can be summarized as follows:

	<b>Year Ended 12/31/14</b>	<b>Year Ended 12/31/15</b>	<b>Current Base</b>
	<b>Base Compensation/ Target Bonus</b>	<b>Base Compensation/ Target Bonus</b>	<b>Compensation/ Target Bonus</b>
President and Chief Executive Officer*		\$ 380,000/40%	\$ 520,000/50%
Chief Financial Officer		\$ 450,000/50%	\$ 450,000/50%
General Counsel	\$ 320,000/40%	\$ 320,000/40%	\$ 340,000/40%

\* Dr. Massey was the company's President and Chief Operating Officer from March 2015 until January 2016. He has served as the company's President and Chief Executive Officer since January 18, 2016.

In practice, over the past few years, we have awarded bonuses on an annual basis after considering, among other things, the company's accomplishments against stated corporate goals adopted by the Board, the company's financial position, the status of its development programs, clinical progress and corporate development activities, and general economic factors. This has necessarily involved a subjective assessment by the Compensation Committee of corporate performance and market conditions each year.

The process of establishing our corporate goals over the past few years has been a lengthy one. For each fiscal year, our executive officers have presented the Compensation Committee of the Board with approximately five to ten proposed corporate goals, each often consisting of multiple sub-parts. Management has usually presented its recommended corporate goals to the Compensation Committee concurrent with our proposed corporate budgets for the following fiscal year. Goals have been designed to be challenging, so that one would not expect consistent achievement of all of them. Typically these goals have included some preclinical and clinical goals for our HuCNS-SC cell-based platform technology, financing and corporate development goals, and goals related to advancement in cell manufacturing practices. While all these goals have been considered important, and we have used a cross-functional and balanced approach to setting them, we have typically prioritized our goals by assigning relative weightings to each of them, with all of them together adding up to 100%.

After receiving management's recommended goals, members of the Compensation Committee typically review them with our executive officers and oftentimes provide suggestions for additional goals or changes to the recommended goals. After our executive officers and directors have completed this iterative process, which has often taken several weeks, the Compensation Committee adopts revised corporate goals consistent with the foregoing principles and recommends the updated corporate goals to the full Board for consideration and approval.

Thereafter, during each fiscal year, our executive officers have used the Board-approved corporate goals as a management tool, for example to coordinate activities, motivate personnel and help prioritize the use of company resources. The executive officers have sometimes referred back to the corporate goals when providing business updates to the Board, similar to management's reference back to an approved annual budget.

Recently, at the end of each fiscal year or shortly afterwards, our chief executive officer (our CEO) has presented the Compensation Committee with his assessments of corporate performance against the Board-approved corporate goals, together with a summary of any important factors that weighed in his assessments, which he has provided as context.

Because our corporate goals have not been formulaic or quantitative in nature (we have not had a corporate goal tied to specific stock price, revenues or expenses, for example), our CEO's assessments have been largely qualitative in nature. Along with these assessments, our CEO has provided a percentage score for each goal reflecting the degree to which each goal was or was not, in his judgment, achieved during the year.

The Compensation Committee has usually considered these percentage scores as well as our CEO's commentary about corporate performance and more general assessments of the state of our business when determining whether to award employees a company-wide corporate bonus in any given year, and if so how much of the available bonus pool to award. However, the Compensation Committee members have used their own judgment to determine the size of any bonus award, if any. In any given year, the Board may decide in its judgment to award more than 100% of the bonus pool for the year. The Board may also decide to award less than 100% of the bonus pool, even if all of the corporate goals have been achieved, if it decides doing so would be in the best interests of the company. While the Compensation Committee and the Board as a whole use the corporate goals as a measure of success, the amount of any bonus grant, as well as how and when it will be paid, is completely within the Board's sole discretion.

With these various principles in mind, in early 2016 and as part of its annual year-end review of performance, the Compensation Committee (with input from our CEO and other Board members) considered, among other things, significant company performance accomplishments in 2015, the company's successes measured against its 2015 corporate goals, the degree of difficulty in achieving these goals, as well as other events and circumstances that affected performance. The 2015 goals, as approved by our Board, consisted generally of the following: (i) progress in our CNS Program, including activities aimed at Phase II clinical testing of our proprietary HuCNS-SC cells in spinal cord injury and age related macular degeneration; (ii) progress toward the implementation of certain quality systems; (iii) timely publication of clinical data; (iii) successful completion of certain product development and GMP manufacturing activities; (iv) partnering and corporate development activities; and (v) successful fundraising efforts.

Highlights of the 2015 accomplishments taken into account by the Compensation Committee in determining the overall company performance included: