

Policy of StemCells, Inc. Regarding Shareholder Candidates For Nomination as a Director

The Company's Nominating and Corporate Governance Committee (the "Committee") will consider and evaluate up to two candidates recommended by one or more stockholders in accordance with this policy for nomination for election as a director at any annual meeting of stockholders. The Committee will consider and evaluate candidates recommended by stockholders on the same basis as candidates recommended by other sources.

Eligibility Requirements for Submitting Nominations

A stockholder or group of stockholders (referred to in either case as a "Nominating Stockholder") that, individually or as a group, have beneficially owned at least 5% of the Company's common stock for at least one year prior to the date the Nominating Stockholder submits a candidate for nomination as a director may submit one candidate to the Committee for consideration.

If the Company receives recommendations in accordance with this policy for more than two candidates for election at any meeting, the Committee will consider the two candidates recommended by the two Nominating Stockholders who beneficially own the most shares of the Company's common stock.

Procedures

A Nominating Stockholder must submit a candidate for consideration as a director nominee in writing. The submission must be delivered to the following address:

StemCells, Inc.
Attn: Secretary, Board of Directors
3155 Porter Drive
Palo Alto, California 94304

The submission must be received by a date not later than the 120th calendar day before the anniversary of the date the prior year's annual meeting proxy statement was released to stockholders (or if the annual meeting date has changed by more than 30 days, a reasonable time before the Company begins to print and mail its proxy statement), and must contain the following information:

- The name, address and number of shares of common stock beneficially owned by the Nominating Stockholder and each participant in a Nominating Stockholder group (including the name and address of all beneficial owners of more than 5% of the equity interests of any Nominating Stockholder or participant in a Nominating Stockholder group);
- A representation that the Nominating Stockholder meets the requirements described above and will continue to meet them through the date of the annual meeting. If the

Nominating Stockholder is not a registered holder of Company shares, it must provide evidence of eligibility as provided in Securities Exchange Act Rule 14a-8(b)(2);

- A description of all arrangements or understandings (whether written or oral) between or among the Nominating Shareholder (or any participant in a Nominating Shareholder group) and the candidate or any other person or entity regarding the candidate (naming such person or entity);
- All information regarding the candidate that the Company would be required to disclose in a proxy statement filed pursuant to the rules and regulations of the Securities and Exchange Commission with respect to a meeting at which the candidate would stand for election;
- Confirmation that the candidate is independent under the independence requirements established by the Company, the Securities and Exchange Commission and NASDAQ, or if the candidate is not independent under all such criteria, a description of the reasons why the candidate is not independent;
- The consent of the candidate to serve as a member of the board of directors if nominated and elected;
- A representation signed by the candidate that if elected he or she will:
 - represent all stockholders of the Company in accordance with applicable laws, and the Company's certificate of incorporation, bylaws and other policies;
 - comply with all rules, policies or requirements generally applicable to non-employee directors; and
 - upon request, complete and sign customary Directors and Officers Questionnaires.

Authorization to Interpret and Adopt Additional Procedures

The Committee is authorized to interpret this policy and adopt additional rules and procedures as it deems appropriate for the purpose of implementing this policy.