STEMCELLS INC
Form 10-Q
May 04, 2010

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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: March 31, 2010
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)
(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

At April 30, 2010, there were 119,673,325 shares of Common Stock, $.01 par value, issued and outstanding.

STEMCELLS, INC.
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NOTE REGARDING REFERENCES TO US AND OUR COMMON STOCK

Throughout this Form 10-Q, the words we, us, our, and StemCells refer to StemCells, Inc., including our directly a indirectly wholly-owned subsidiaries. Common stock refers to the common stock, $.01 par value, of StemCells, Inc.

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PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STEMCELLS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,336,987	$ 38,617,977
Marketable securities, current	156,730	196,995
Trade receivables	41,522	87,019
Other receivables	406,702	679,034
Prepaid assets	695,446	560,144
Total current assets	32,637,387	40,141,169
Property, plant and equipment, net	2,637,181	2,856,695
Other assets, non-current	2,541,086	2,525,185
Goodwill	1,852,189	2,019,679
Other intangible assets, net	3,330,750	3,647,596
Total assets	$ 42,998,593	$ 51,190,324
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,017,848	$ 890,582
Accrued expenses and other current liabilities	1,979,764	3,760,438
Accrued wind-down expenses, current	1,512,062	1,449,810
Deferred revenue, current	186,119	119,542
Capital lease obligation, current	64,620	68,000
Deferred rent, current	41,273	80,392
Bonds payable, current	165,000	161,250
Total current liabilities	4,966,686	6,530,014
Capital lease obligation, non-current	69,494	85,826
Bonds payable, non-current	656,250	698,750
Fair value of warrant liability	8,160,619	9,676,968
Deposits and other long-term liabilities	466,211	466,211
Accrued wind-down expenses, non-current	2,788,815	3,056,675
Deferred rent, non-current	40,281	50,600
Deferred revenue, non-current	126,007	130,213
Total liabilities	17,274,363	20,695,257
Commitments and contingencies (Note 8)		
Stockholders equity:.		
Common stock, $0.01 par value; 250,000,000 shares authorized; issued and outstanding 119,622,033 at March 31, 2010 and 118,349,587 at December 31, 2009	1,196,219	1,183,495
Additional paid-in capital	316,635,781	314,944,784

Accumulated deficit	(292,152,010)	(286,027,935)
Accumulated other comprehensive income	44,240	394,723
Total stockholders equity	25,724,230	30,495,067
Total liabilities and stockholders equity	$ 42,998,593	$ 51,190,324

See Notes to Condensed Consolidated Financial Statements.

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STEMCELLS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31,	
	2010	2009
Revenue:		
Revenue from licensing agreements and grants	$ 113,849	$ 56,603
Revenue from product sales	116,424	
Total revenue	230,273	56,603
Cost of product sales	(43,762)	
Gross profit	186,511	56,603
Operating expenses:		
Research and development	5,037,514	4,235,788
Selling, general and administrative	2,584,742	2,538,913
Wind-down expenses	165,335	205,436
Total operating expenses	7,787,591	6,980,137
Loss from operations	(7,601,080)	(6,923,534)
Other income (expense):		
Realized gain on sale of marketable securities		397,866
Change in fair value of warrant liability	1,516,349	(2,755,448)
Interest income	594	41,947
Interest expense	(25,500)	(28,175)
Other expense	(14,438)	(14,210)
Total other income (expense), net	1,477,005	(2,358,020)
Net loss	$ (6,124,075)	$ (9,281,554)
Basic and diluted net loss per share	$ (0.05)	$ (0.10)
Shares used to compute basic and diluted loss per share	118,959,136	96,048,288

See Notes to Condensed Consolidated Financial Statements.

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STEMCELLS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	$ (6,124,075)	$ (9,281,554)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	418,307	298,347
Stock-based compensation	1,018,972	981,015
Gain on sale of marketable securities		(397,868)
Change in fair value of warrant liability	(1,516,349)	2,755,448
Changes in operating assets and liabilities:		
Trade receivables	41,568	
Other receivables	300,765	54,976
Prepaid and other current assets	(138,508)	250,236
Other assets, non-current	(17,588)	6,020
Accounts payable and accrued expenses	(1,614,964)	(180,823)
Accrued wind-down expenses	(201,175)	(176,779)
Deferred revenue	74,198	(14,362)
Deferred rent	(49,437)	(76,287)
Net cash used in operating activities	(7,808,286)	(5,781,631)
Cash flows from investing activities:		
Proceeds from the sale of marketable securities		3,612,750
Payment of advances under notes receivable		(415,000)
Purchases of property, plant and equipment	(78,871)	(277,436)
Net cash provided by (used in) investing activities	(78,871)	2,920,314
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	1,044,907	6,744,958
Proceeds from the exercise of stock options	636	75,064
Proceeds from the exercise of warrants		331,501
Payments related to net share issuance of stock based awards	(360,793)	(380,548)
Proceeds from (repayment of) capital lease obligations	(19,713)	140,658
Repayment of bonds payable	(38,750)	(36,250)
Net cash provided by financing activities	626,287	6,875,383
Increase (decrease) in cash and cash equivalents	(7,260,870)	4,014,066
Effects of foreign exchange rate changes on cash	(20,120)	
Cash and cash equivalents, beginning of period	38,617,977	30,042,986
Cash and cash equivalents, end of period	$ 31,336,987	$ 34,057,052
Supplemental disclosure of cash flow information:		

Interest paid	$ 25,500	$ 28,175

See Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2010 and 2009

Note 1. Summary of Significant Accounting Policies

Nature of Business

StemCells, Inc., a Delaware corporation, is a biopharmaceutical company that operates in one segment, the research, development, and commercialization of stem cell therapeutics and related technologies.

The accompanying financial data as of and for the three months ended March 31, 2010 and 2009 has been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The December 31, 2009 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. However, we believe that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

We have incurred significant operating losses since inception. We expect to incur additional operating losses over the foreseeable future. We have very limited liquidity and capital resources and must obtain significant additional capital and other resources in order to sustain our product development efforts, to provide funding for the acquisition of technologies, businesses and intellectual property rights, preclinical and clinical testing of our investigative products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, selling, general and administrative expenses and other working capital requirements. We rely on our cash reserves, proceeds from equity and debt offerings, proceeds from the transfer or sale of intellectual property rights, equipment, facilities or investments, government grants and funding from collaborative arrangements, to fund our operations. If we exhaust our cash reserves and are unable to obtain adequate financing, we may be unable to meet our operating obligations and we may be required to initiate bankruptcy proceedings. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of StemCells, Inc., and our wholly-owned subsidiaries, StemCells California, Inc., StemCells Property Holding LLC, Stem Cell Sciences Holdings Ltd; Stem Cell Sciences (UK) Ltd; and Stem Cell Sciences (Australia) Pty Ltd. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Significant estimates include the following:

- the grant date fair value of stock-based awards recognized as compensation expense (see Note 6, Stock-Based Compensation);
- accrued wind-down expenses (see Note 7, Wind-Down Expenses);
- the fair value of warrants recorded as a liability (see Note 9, Warrant Liability); and
- the fair value of goodwill and other intangible assets (see Note 5, Goodwill and Other Intangible Assets).

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Financial Instruments

Cash and Cash Equivalents

We consider money market accounts, money market funds and investments with an average maturity of 90 days or less from the date of purchase to be cash equivalents.

Marketable Securities

Our existing marketable securities are designated as available-for-sale securities. These securities are carried at fair value (see Note 2, Financial Instruments), with the unrealized gains and losses reported as a component of stockholders equity. Management determines the appropriate designation of its investments (current or non-current) in marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. The cost of securities sold is based upon the specific identification method.

If the estimated fair value of a security is below its carrying value, we evaluate whether we have the intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery to the cost of the investment, and whether evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Other-than-temporary declines in estimated fair value of all marketable securities are charged to Other income (expense), net. No such impairment was recognized during the three months ended March 31, 2010 or 2009.

Other Receivables

Our receivables generally consist of interest income on our financial instruments, revenue from licensing agreements and grants, revenue from product sales, and rent from our sub-lease tenants.

Goodwill and Other Intangible Assets

Goodwill and intangible assets are primarily from a business acquisition accounted for under the purchase method. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. If the assumptions and estimates used to allocate the purchase price are not correct, or if business conditions change, purchase price adjustments or future asset impairment charges could be required. We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited. Intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Prior to fiscal year 2001, we capitalized certain patent costs, which are being amortized over the estimated lives of the patents and would be expensed at the time such patents are deemed to have no continuing value. Since 2001, all patent costs are expensed as incurred. License costs are capitalized and amortized over the estimated life of the license agreement.

Revenue Recognition

We currently recognize revenue resulting from the licensing and use of our technology and intellectual property. Such licensing agreements may contain multiple elements, such as upfront fees, payments related to the achievement of particular milestones and royalties. Revenue from upfront fees for licensing agreements that contain multiple elements are generally deferred and recognized on a straight-line basis over the term of the agreement. Fees associated with substantive at risk performance-based milestones are recognized as revenue upon completion of the scientific or regulatory event specified in the agreement, and royalties received are recognized as earned. Revenue from collaborative agreements and grants are recognized as earned upon either the incurring of reimbursable expenses directly related to the particular research plan or the completion of certain development milestones as defined within the terms of the relevant collaborative agreement or grant. Revenue from product sales are recognized when the product is shipped and the order fulfilled.

Stock-Based Compensation

Compensation expense for stock-based payment awards to employees is based on their grant date fair value as calculated and amortized over their vesting period. See Note 6, Stock-Based Compensation for further information.

Compensation expense for stock-based awards granted to non-employees is based on the estimated fair value of the award which is re-measured at each reporting date and is amortized over the remaining vesting period.

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We use the Black-Scholes-Merton (Black-Scholes) model to calculate the fair value of stock-based awards.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed based on the weighted-average number of shares of common stock and other dilutive securities. To the extent these securities are anti-dilutive, they are excluded from the calculation of diluted earnings per share.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	Three months ended March 31,	
	2010	**2009**
Net loss	$ (6,124,075)	$ (9,281,554)
Weighted average shares outstanding used to compute basic and diluted net loss per share	118,959,136	96,048,288
Basic and diluted net loss per share	$ (0.05)	$ (0.10)

The following outstanding potentially dilutive common stock equivalents were excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive as of March 31:

	2010	**2009**
Options	9,830,870	8,355,287
Restricted stock units	1,777,151	1,350,000
Warrants	14,344,828	11,425,354
Total	25,952,849	21,130,641

Comprehensive Loss

Comprehensive loss is comprised of net losses and other comprehensive loss or income (OCL). OCL includes certain changes in stockholders equity that are excluded from net losses. Specifically, we include in OCL changes in unrealized gains and losses on our marketable securities and unrealized gains and losses on foreign currency translations. Accumulated other comprehensive income was $44,240 as of March 31, 2010 and $394,723 as of December 31, 2009.

The activity in OCL was as follows:

	Three months ended March 31,	
	2010	**2009**
Net loss	$ (6,124,075)	$ (9,281,554)
Net change in unrealized gains and losses on marketable securities	(40,265)	50,484
Net change in unrealized gains and losses on foreign currency translations	(310,218)	
Comprehensive loss	$ (6,474,558)	$ (9,231,070)

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB), issued new standards to update and amend existing standards on *Fair Value Measurements and Disclosures.* These standards require new disclosures on the amount and reason for transfers in and out of Level 1 and Level 2 fair value measurements. The standards also require disclosure of activities in Level 3 fair value measurements that use significant unobservable inputs, including purchases, sales, issuances, and settlements. The standards also clarify existing disclosure requirements on levels of disaggregation, which requires fair value measurement disclosure for each class of assets and liabilities, and

disclosures about valuation techniques and inputs used to measure fair value of recurring and non recurring fair value measurements that fall in ether Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for our interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for our fiscal year beginning January 1, 2011. We do not expect the adoption of these new standards on January 1, 2011 to have a material effect on our consolidated financial condition and results of operations.

In April 2010, FASB issued Accounting Standards Update (ASU), *Revenue Recognition Milestone Method,* which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a study or achieving a specific result from the research or development efforts. The amendments in this ASU provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. The ASU is effective for fiscal years and interim periods within those years beginning on or after June 15, 2010, with early adoption permitted. This ASU is effective for our interim and annual reporting periods beginning January 1, 2011. We are currently evaluating the impact, if any on our financial condition and results of operations.

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Note 2. Financial Instruments

The following table summarizes the fair value of our cash, cash equivalents and available-for-sale marketable securities held in our current investment portfolio:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2010				
Cash	$ 383,733	$	$	$ 383,733
Cash equivalents	30,953,254			30,953,254
Marketable equity securities, current	74,456	82,274		156,730
Total cash, cash equivalents, and marketable securities	$ 31,411,443	$ 82,274	$	$ 31,493,717
December 31, 2009				
Cash	$ 1,064,148	$	$	$ 1,064,148
Cash equivalents	37,553,829			37,553,829
Marketable equity securities, current	74,456	122,539		196,995
Total cash, cash equivalents, and marketable securities	$ 38,692,433	$ 122,539	$	$ 38,814,972

Gross unrealized gains and losses on cash equivalents were not material at March 31, 2010 and December 31, 2009. At March 31, 2010, our cash equivalents were primarily money market funds consisting mainly of U.S. Treasury securities.

Our investment in marketable securities consists of ordinary shares of ReNeuron Group Plc (ReNeuron), a publicly listed U.K. corporation. In July 2005, we entered into an agreement with ReNeuron under which we granted ReNeuron a license that allows ReNeuron to exploit its c-mycER conditionally immortalized adult human neural stem cell technology for therapy and other purposes. We received shares of ReNeuron common stock, as well as a cross-license to the exclusive use of ReNeuron s technology for certain diseases and conditions, including lysosomal storage diseases, spinal cord injury, cerebral palsy, and multiple sclerosis. The agreement also provides for full settlement of any potential claims that either we or ReNeuron might have had against the other in connection with any putative infringement of certain of each party s patent rights prior to the effective date of the agreement. In July and August 2005, we received approximately 8,836,000 ordinary shares of ReNeuron common stock, net of approximately 104,000 shares that were transferred to NeuroSpheres, Ltd., an Alberta corporation (NeuroSpheres), and subsequently, as a result of certain anti-dilution provisions in the agreement, we received approximately 1,261,000 more shares, net of approximately 18,000 shares that were transferred to NeuroSpheres. In February 2007, we sold 5,275,000 shares for net proceeds of approximately $3,075,000. We recognized approximately $716,000 as realized gain from this transaction. In the first quarter of 2009, we sold 2,900,000 shares of ReNeuron and received net proceeds of approximately $510,000 for a realized gain of approximately $398,000. At March 31, 2010 and December 31, 2009, we owned 1,921,924 shares of ReNeuron with a carrying and fair market value of approximately $157,000 and $197,000 respectively.

Changes in the fair market value of our ReNeuron shares as a result of changes in market price per share or the exchange rate between the U.S. dollar and the British pound are accounted for as an unrealized gain or loss under other comprehensive income (loss) if deemed temporary and are not recorded as other income (expense), net until the shares are disposed of and a gain or loss realized. If the fair value of a security is below its carrying value, we evaluate whether we have the intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery to the cost of the investment, and whether evidence indicating that the cost of the investment is

recoverable within a reasonable period of time outweighs evidence to the contrary. Other-than-temporary declines in estimated fair value of all marketable securities are charged to other income (expense), net. For the three months ended March 31, 2010, we recorded an unrealized gain of approximately $40,000.

Note 3. Fair Value Measurement

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Directly or indirectly observable inputs other than in Level 1, that include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active.

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Level 3 Unobservable inputs which are supported by little or no market activity that reflects the reporting entity s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Our cash equivalents, marketable securities and bonds payable are classified within Level 1 or Level 2. This is because our cash equivalents and marketable securities are valued primarily using quoted market prices and our bonds payable are valued using alternative pricing sources and models utilizing market observable inputs. We currently do not have any Level 3 financial assets or liabilities.

The following table presents financial assets and liabilities measured at fair value:

	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	As of March 31, 2010
Assets			
Cash Equivalents:			
Money market funds	$ 30,953,254	$	$ 30,953,254
Marketable Securities:			
Equity securities	156,730		156,730
Total assets	$ 31,109,984		31,109,984
Liabilities			
Bond payable	$	$ 821,250	$ 821,250

Note 4. Acquisition of Stem Cell Sciences Plc (SCS) Operations

On April 1, 2009, we acquired the operations of SCS for an aggregate purchase price of approximately $5,135,000. The acquired operations includes proprietary cell technologies relating to embryonic stem cells, induced pluripotent stem (iPS) cells, and tissue-derived (adult) stem cells; expertise and infrastructure for providing cell-based assays for drug discovery; a media formulation and reagent business; and an intellectual property portfolio with claims relevant to cell processing, reprogramming and manipulation, as well as to gene targeting and insertion.

The purchase price has been allocated as follows:

	Allocated purchase price	Estimated life of intangible assets in years
Net tangible assets	$ 36,000	
Intangible assets:		
Customer relationships and developed technology	1,310,000	6 to 9
In process research and development	1,340,000	13 to 19
Trade name	310,000	15
Goodwill	2,139,000	N/A

Total	$	5,135,000

Note 5. Goodwill and Other Intangible Assets

In March 2010, we received approximately $47,000 for an R&D tax credit due to our wholly-owned subsidiary Stem Cell Sciences (Australia) Pty Ltd. The R&D tax credit was due for the year 2007. Accordingly, the purchase price allocation for the SCS acquisition was adjusted and the gross carrying amount of goodwill recorded at the date of acquisition was reduced by that amount.

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The following table represents changes in goodwill:

Balance as of December 31, 2009	$ 2,019,679
Reductions (R&D credit as described above)	(47,374)
Foreign currency translation	(120,116)
Balance as of March 31, 2010	$ 1,852,189

The components of our other intangible assets at March 31, 2010 are summarized below:

Other Intangible Asset Class	Net Carrying Amount
Customer relationships and developed technology	$ 1,204,401
In-process research and development	1,318,857
Trade name	305,084
Patents	394,604
License agreements	107,804
Total other intangible assets	$ 3,330,750

Amortization expense was approximately $131,000 in the first quarter of 2010.

Note 6. Stock-Based Compensation

We currently grant stock-based awards under three equity incentive plans. We had 23,759,050 shares authorized to be granted under the three plans as of March 31, 2010. Under these plans we may grant various types of equity awards to our employees, directors and consultants, at prices determined by our Board of Directors, including incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, and performance-based shares. Incentive stock options may only be granted to employees under these plans with a grant price not less than the fair market value of the stock on the date of grant. We use these plans to grant shares to employees for the employer match of employee 401(k) plan contributions.

Our stock-based compensation expense for the three months ended March 31 was as follows:

	Three months ended March 31,	
	2010	2009
Research and development expense	$ 546,608	$ 492,587
General and administrative expense	472,364	488,428
&nbs		