

Neuralstem, Inc.  
Form 10-K  
March 16, 2011

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

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FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-1357459

NEURALSTEM, INC.

(Exact name of registrant as specified in its charter)

Delaware  
State or other jurisdiction of  
incorporation or organization

52-2007292  
(I.R.S. Employer  
Identification No.)

9700 Great Seneca Highway  
Rockville, MD  
(Address of principal executive offices)

20850  
(Zip Code)

Registrant's telephone number, including area code (301)-366-4841

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, \$0.01 par value	NYSE Amex

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter based upon the closing price of the common stock as reported by NYSE Amex on such date, was approximately \$106,921,703.

The number of shares outstanding of Registrant's common stock, \$0.01 par value at March 1, 2011 was 48,366,304.

### DOCUMENTS INCORPORATED BY REFERENCE

None.

### SUBSEQUENT EVENTS

On March 1, 2011 Neuralstem, Inc. announced that the first subject was dosed the day before in a Phase Ia trial to evaluate the safety of its drug, NSI-189, which is being developed for the treatment of major depressive disorder and other psychiatric indications. NSI-189 is the lead compound in Neuralstem's neurogenerative small molecule drug platform. This phase of the trial is in healthy volunteers and seeks to determine the maximum tolerated single dose.

On February 15, 2011 Neuralstem, Inc. announced the appointment of business leader Stanley I. Westreich to its Board of Directors. With his appointment the company's board is now comprised of a majority of independent directors. Mr. Westreich served as Director and Member of the Finance & Trust Oversight Committee of Capital One Financial Corp. and was a Director of Capital One Bank (USA) from 1994 through 2010. Mr. Westreich also served as Chairman of its Compensation Committee from March 1995 through April 2005, and continued as Member until 2009. Mr. Westreich founded and served as president of Westfield Realty, Inc., a Washington, D.C. area commercial real estate finance, development and construction company, from 1965 to 2005. He holds a Juris Doctorate from New York University and a Bachelors of Business Administration from The University of Miami.

On February 10, 2011 Neuralstem, Inc updated the progress of its ongoing Phase I human clinical trial of the company's spinal cord stem cells in the treatment of ALS (amyotrophic lateral sclerosis, or Lou Gehrig's disease) at

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Emory University in Atlanta, Georgia. The company announced that, after reviewing the safety data from the first nine patients, the trial's Safety Monitoring Board unanimously approved moving to the last group of ALS patients in this part of the safety trial. These next three patients, all of whom are ambulatory, will each receive ten injections, bilaterally, in the lumbar spinal cord. After this cohort, the FDA will review the trial data to date before approving it to move into the final cohort of patients, who will receive injections in the cervical region of the spinal cord.

On February 9, 2011, Neuralstem, Inc. announced that the U.S. Food and Drug Administration's Office of Orphan Products Development has granted it orphan drug designation for the treatment of Amyotrophic Lateral Sclerosis (ALS) with its human spinal cord derived neural stem cells (NSI-566RSC), currently in a Phase I safety study to evaluate the safety of the product and the surgical route of administration in a wide range of ALS patients. In addition to providing a seven-year term of market exclusivity for our stem cells for ALS upon FDA approval, Orphan Drug Designation also positions Neuralstem to take advantage of certain financial and regulatory benefits, including government grants for conducting clinical trials, waiver of FDA user fees for the submission of a Biologics License Application for NSI-566RSC, and certain tax credits.

On January 28, 2011 Neuralstem, Inc. announced that it has reached a settlement with ReNeuron, Ltd. ending litigation between the parties. The confidential settlement agreement resolves all claims asserted by Neuralstem against ReNeuron in Neuralstem, Inc. v. ReNeuron, Ltd., Case No. CV 08-02168 R (AGRx), which was pending in the United States District Court for the Central District of California. Although the contents of the agreement have not been disclosed, ReNeuron has agreed to immediately compensate Neuralstem, as well as to make future milestone and royalty payments to Neuralstem based on ReNeuron's development of certain products.

During the first quarter of 2006, we issued a total of 2,019,231 Series A warrants in connection with a private placement of our securities. The Series A warrants expired on February 22, 2011. The warrants had an exercise price of \$1.25. As a result, Series A warrant holders exercised 583,005 of these warrants in 2010 with proceeds of \$728,756 and 1,468,775 warrants in 2011 with proceeds of \$1,826,346. We issued a total of 2,051,780 new common shares as a result of these exercises.

NEURALSTEM, INC

FORM 10-K

## FOR THE YEAR ENDED DECEMBER 31, 2010

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## PART I

We urge you to read this entire Annual Report on Form 10-K, including the "Risk Factors" section, the financial statements and related notes included herein. As used in this Annual Report, unless context otherwise requires, the words "we," "us," "our," "the Company," "Neuralstem" and "Registrant" refer to Neuralstem, Inc. Also, any reference to "common share" or "common stock," refers to our \$.01 par value common stock.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements included in this Annual Report, including those related to our cash, liquidity, resources and our anticipated cash expenditures, as well as any statements other than statements of historical fact, regarding our strategy, future operations, financial position, projected costs, prospects, plans and objectives are forward-looking statements. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. You can generally identify forward looking statements through words and phrases such as "believe", "expect", "seek", "estimate", "anticipate", "intend", "plan", "budget", "project", "may likely result", "may be", "may continue", similar expressions, although not all forward-looking statements contain these identifying words. We cannot guarantee future results, levels of activity, performance or achievements, and you should not place undue reliance on our forward-looking statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described in Part I, Item 1A, "Risk Factors" and elsewhere in this Annual Report. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or strategic investments. In addition, any forward-looking statement represents our expectation only as of the day this Annual Report was first filed with the Securities and Exchange Commission ("SEC") and should not be relied on as representing our expectations as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our expectations change.

When reading any forward-looking statement, you should remain mindful that actual results or developments may vary substantially from those expressed in or implied by such statement for a number of reasons or factors, including but not limited to:

- the success of our research and development activities, the development of a viable commercial product, and the speed with which regulatory authorizations and product launches may be achieved;
- whether or not a market for our product develops, and, if a market develops, the rate at which it develops;
- our ability to successfully sell or license our products if a market develops;
- our ability to attract and retain qualified personnel to implement our business plan and corporate growth strategies;
- our ability to develop sales, marketing, and distribution capabilities;
- our ability to obtain reimbursement from third party payers for our proposed products if they are developed;

- the accuracy of our estimates and projections;
- our ability to secure additional financing to fund our short-term and long-term financial needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the section captioned “Risk Factors.”

Each forward-looking statement should be read in context with and in understanding of the various other disclosures concerning our company and our business made elsewhere in this Annual Report as well as our public filings with the SEC. You should not place undue reliance on any forward-looking statement. We are not obligated to update or revise any forward-looking statements contained in this Annual Report or any other filing to reflect new events or circumstances unless and to the extent required by applicable law.

## ITEM 1. BUSINESS

### Overview

We are focused on the development and commercialization of treatments for central nervous system disease based on transplanting human neural stem cells and small molecule drugs. We are headquartered in Rockville, Maryland.

We have developed and maintain a portfolio of patents and patent applications that form the proprietary base of our research and development efforts in the areas of neural stem cell research, small molecule research, and related technologies. We believe our patented technology, in combination with our know-how, and collaborative projects with major research institutions, provide a competitive advantage and will enable us to develop and commercialize products for use in treatment of a number of neurodegenerative conditions and in regenerative repair of acute disease.

Regenerative medicine is a young and emerging field. There can be no assurances that our intellectual property portfolio will ultimately produce viable commercialized products and processes. Even if we are able to produce a commercially viable product, there are strong competitors in this field and our product may not be able to successfully compete against them.

### The Field of Regenerative Medicine

The emerging field of treatment called "regenerative medicine" or "cell therapy" refers to treatments that are founded on the concept of producing new cells to replace malfunctioning or dead cells as a way to treat disease and injury. Many significant and currently untreatable human diseases arise from the loss or malfunction of specific cell types in the body. Our focus is the development of effective methods to generate replacement cells from neural stem cells. We believe that replacing damaged or malfunctioning or dead neural cells with fully functional ones may be a useful therapeutic strategy in treating many diseases and conditions of the central nervous system ("CNS") including: Alzheimer's disease, Parkinson's disease, Multiple Sclerosis, ALS, depression, and injuries to the spinal cord.

### Stem Cell Therapy Background

Cells maintain normal physiological function in healthy individuals by secreting or metabolizing substances, such as sugars, amino acids, neurotransmitters and hormones, which are essential to life. When cells are damaged or destroyed, they no longer produce, metabolize or accurately regulate those substances. Cell loss or impaired cellular functions are leading causes of degenerative diseases, and some of the specific substances or proteins that are deficient in some of these diseases have been identified. Although administering these substances or proteins has some advantages over traditional pharmaceuticals, such as specificity, there is no existing technology that can deliver them precisely to the sites of action, under the appropriate physiological regulation, in the appropriate quantity, nor for the duration required to cure the degenerative condition. Cells, however, may do all this naturally. Thus, where failing cells are no longer producing needed substances or proteins or where there has been irreversible tissue damage or organ failure, transplantation of stem or progenitor cells may enable the generation of new functional cells, thus potentially restoring organ function and the patient's health.

Stem cells have two defining characteristics: (i) they produce mature cells which make up particular organs; and (ii) they self renew — that is, some of the cells developed from stem cells are themselves new stem cells, thus permitting the process to continue again and again. Stem cells are known to exist for a number of systems of the human body, including the blood and immune system, the central and peripheral nervous systems (including the brain), the skin, bone, and even hair. They are thought to exist for many others, including the liver and pancreas endocrine systems,

gut, muscle, and heart. Stem cells are responsible for organ regeneration during normal cell replacement and, to a greater or lesser extent, after injury.

Stem cells are rare and only available in limited supply, whether from the patients themselves or from donors. Also, stem cells can often be obtained only through significant surgical procedures. Therefore, in order to develop stem cell therapeutics, three key challenges must be overcome: (i) identification of stem or progenitor cells of a particular organ and testing them for therapeutic potential; (ii) creation of processes to enable use of these rare cells in clinical applications, such as expanding and banking them in sufficient quantities to transplant into multiple patients; and (iii) demonstration of the safety and efficacy of these potential therapeutics in human clinical trials.

#### The Potential of Our Tissue-Derived Stem Cell-Based Therapy

We believe that, if successfully developed, stem cell therapeutics have the potential to provide a broad therapeutic approach comparable in importance to traditional pharmaceuticals and genetically engineered biologics. With respect to the human neural stem cells, we have developed proprietary and reproducible processes to identify, isolate, expand, and control cell differentiation in mature functioning human neurons<sup>1</sup> and glia<sup>2</sup> and bank human neural stem cells derived from brain tissue. Because the cells are normal human neural stem cells, they may be better suited for transplantation and may provide a safer and more effective alternative to therapies that are based on cells derived from cancer cells, animal derived cells or cells derived from an unpurified mix of many different cell types.

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<sup>1</sup> Neurons are a major class of cells in the nervous system. Neurons are sometimes called nerve cells, though this term is technically imprecise since many neurons do not form nerves. In vertebrates, they are found in the brain, the spinal cord and in the nerves and ganglia of the peripheral nervous system, and their primary role is to process and transmit neural information. One important characteristic of neurons is that they have excitable membranes which allow them to generate and propagate electrical signals.

<sup>2</sup> Glia cells, commonly called neuroglia or simply glia, are non-neuronal cells that provide support and nutrition, maintain homeostasis, form myelin, and participate in signal transmission in the nervous system. In the human brain, glia are estimated to outnumber neurons by as much as 50 to 1.



## Potential Markets

We believe the potential markets for regenerative medicine based on our technologies are large. The table below summarizes the potential United States patient populations which we believe may be amenable to neural cell transplantation or treatment with our small molecule compound and represent potential target markets for our proposed products:

Medical Condition	Number of Patients	
<b>Stem cells</b>		
ALS	30,000	(1)
Huntington's disease	15,000	(2)
Multiple Sclerosis	2.5 million	(6)
Parkinson's Disease	1.0 million	(7)
Spinal Cord Injury	250,000	(4)
Stroke	6.5 million	(3)
<b>Small molecule compound</b>		
Alzheimer's disease	4.5 million	(5)
Depression	14.8 million	(5)
Schizophrenia	2.4 million	(5)
Stroke	6.5 million	(3)

(1) Agency for Toxic Substances and Disease Registry (ATSDR),

(2) National Institute of the Neurological Disorders and Stroke (NINDS)

(3) 2005 American Heart Association study

(4) The University of Alabama National Spinal Cord Injury Statistical Center - March 2002

(5) National Institute of Health

(6) National Multiple Sclerosis Society

(7) Parkinson's Disease Foundation - US only

## Our Technology

### Stem Cells

Our technology includes the ability to isolate human neural stem cells from most areas of the human brain and spinal cord and to grow them into physiologically relevant human neurons of all types. Our core patents entitled:

- Isolation, Propagation, and Directed Differentiation of Stem Cell from Embryonic and Adult Central Nervous System of Mammal; and

- In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multi-potential CNS Stem Cell

contain claims which cover the details of this process and the culture of cells created. What differentiates our stem cell technology from others is that our patented processes do not require us to “push” the cells towards a certain fate by adding specific growth factors. Our cells actually “become” the type of cell they are fated to be. We believe this process and the resulting cells create a technology platform that allows for the efficient isolation and ability to produce, in commercially reasonable quantities, neural stem cells.

Our technology allows for cells to grow in cultured dishes, also known as “in vitro” growth, without mutations or other adverse events that would compromise their usefulness. We believe this provides the following advantages:

- Our cells are multipotent, so they give rise to the three critical cell types of the nervous system: neurons (cells that carry signals throughout the brain and spinal cord), astrocytes (cells that support and protect neurons), and oligodendrocytes (cells that provide insulation to neurons to make signaling efficient).
- The cells are lineage-restricted, so they only give rise to cells of the nervous system. For example, our spinal cord stem cells can only form cells found within the spinal column.

- Our technology enables large-scale expansion of neural stem cells under controlled conditions without introducing mutations or other adverse events that would compromise their usefulness.
  - Our spinal cord cells can be produced in commercial quantities.
- We have isolated and cultured cells from multiple regions of the brain, allowing application to a number of serious disorders. Cells have been isolated from spinal cord (ALS, spinal cord injury), hippocampus (stroke, Alzheimer's disease), midbrain (Parkinson's disease), and cortex (ischemia).
- Universal Compatibility. The Company's stem cell products are provided to patients as 'allografts,' As such, the recipient is not genetically identical to the donor, and may be treated with a course of immunosuppressant drugs to prevent rejection of the cells. This strategy allows for a single stem cell product to be provided to many thousands of patients, ensuring the highest degree of quality in manufacturing and predictability in outcome. Because the brain and spinal cord are considered 'immune privileged' by most experts in the field, it is expected that immune suppression of the patient will only be performed for a brief period, allowing for minimal disruption of their normal immune function.
- Our biologic drug candidates can be stored frozen at end-user medical facilities until they are needed. This is a key feature of our technology.

Although not the focus of our business, our technology also has ancillary uses with respect to drug development. Our ability to grow and differentiate neural cells in vitro, gives us the ability to analyze the potential biological effects of molecules on these cells.

#### Small Molecule Compounds

The Company has developed and patented a series of small molecule compounds (low molecular weight organic compounds which can efficiently cross the blood/brain barrier) . We believe that these small molecule compounds will stimulate growth of new neurons in the hippocampus and provide a treatment for depression, and possibly other cognitive impact diseases. In December 2010 the FDA approved our application to conduct a clinical trial with our first small molecule compound to treat Major Depressive Disorder. The trial has two phases, 1A and 1B. The 1A trial is a healthy volunteer safety study. The 1B is also a safety study involving actual Depression patients.

In July of 2009, the U.S. Patent and Trademark Office issued the patent covered by patent application 12/049,922, entitled "Use of Fused Nicotinamides to Promote Neurogenesis," which claims four chemical entities and any pharmaceutical composition included in them.

#### Business Strategy

Neuralstem has a number of prospects for developing treatments for central nervous system disease using its stem cells and small molecule compounds.

#### Clinical Trials

##### Stem Cells

The following summarizes the current status of, and the anticipated initial indications for, our therapeutic product development programs.

On December 18, 2008 we filed our first Investigational New Drug Application ("IND") with the U.S. Food and Drug Administration ("FDA") to begin a clinical trial to treat Amyotrophic Lateral Sclerosis ("ALS" or "Lou Gehrig's disease"). On September 21, 2009, the FDA approved our IND. The first patient in our study was dosed on January 21, 2010 at

Emory University in Atlanta Georgia. In May of 2010, we announced that, after reviewing the safety data from the first cohort of three patients, the Safety Monitoring Board has approved moving to the next cohort and transplantation of the fourth patient. The first cohort of patients received five injections of the Company's spinal cord stem cells on one side of the spinal cord. The second cohort of three patients will receive ten injections, five on each side of the cord. The trial will ultimately consist of up to 18 ALS patients, who will be examined at regular intervals post-surgery, with final review of the data to come six months after the last patient is treated. To date, we have treated 11 patients. It is still too early in the trials to make any determination as to its level of success, if any.

On August 22, 2010, we filed our second IND with the FDA in connection with our proposed Phase I clinical trials for chronic spinal cord injury. In October of 2010, we were notified that our IND for spinal cord injury had been placed on clinical hold. At the time, the FDA provided us with specific comments, questions and recommendations for modifications to our trial protocol as contained in our IND application.

#### Small Molecule Compounds

We have performed tests on cultured neural stem cells as well as in animal models in order to validate the performance of small molecule compounds for hippocampal neurogenesis. As a result of those tests, we feel that our small molecule compound may have an application with regard to the treatment of depression.

In November 2010 we filed an IND to commence human safety trials of our lead small molecule compound to treat major depression. The FDA approved the application in December. The first patient was dosed in February 2011. This Phase Ia trial will test a single oral administration of NSI-189 in healthy volunteers. When the maximum tolerated single dose is determined, the trial will progress to the Ib phase, testing the safety of escalating doses of daily administration for 28 days in patients with major depressive disorder (MDD). The entire Phase I trial is expected to be approximately one year in duration.

In anticipation of filing the IND, we completed a production run of our compound using Good Manufacturing Practice (“GMP”) methods which will be large enough to complete safety testing and Phase I clinical trials.

In July of 2009, the U.S. Patent and Trademark Office (“USPTO”) issued the patent covered by patent application 12/049,922, entitled “Use of Fused Nicotinamides to Promote Neurogenesis,” which claims four chemical entities and any pharmaceutical composition including them.

#### Our Research and Programs

We have devoted substantial resources to our research programs to isolate and develop a series of neural stem cell banks that we believe can serve as a basis for therapeutic products. Our efforts to date have been directed at methods to identify, isolate and culture large varieties of stem cells of the human nervous system, and to develop therapies utilizing these stem cells. This research is conducted both internally and through the use of third party laboratory consulting companies under our direct supervision.

In addition to research that we conduct internally or under our direct supervision, we conduct research and development through research collaborations. These collaborations, or programs, are undertaken with both commercial and scholarly institutes pursuant to the terms and conditions of our standard material transfer agreement.

The terms of our standard material transfer agreement require us to provide our research partner or collaborator with access to our technology or “research materials,” which are comprised of our neurological stem cells, for a specific pre-defined purpose. As part of the agreement, we agree to provide sufficient research materials and technical assistance to accomplish the purpose of the program. The determination of sufficiency is determined at our sole discretion. As part of these agreements, we are entitled to certain reporting rights and the right to have patentable discoveries presented to us prior to publication in order for us to file applicable patents. In the event we choose to file a patent, we will either be responsible for all filing and maintenance fees or we will split the fees with our research partner depending on the type of patent to be filed. The agreements also provide for us to receive a fully paid up, royalty free, non-exclusive license to any inventions made by our partner with respect to our technologies and their interest in any intellectual property jointly developed and first right to negotiate an exclusive license. The agreements also provide confidentiality between the parties. Generally each party is responsible for its own expense, there are no milestone payment or royalty payment requirements and the duration of these agreements is for a three year term which can be terminated by either party by providing 90 days written notice. Also, these agreements may require us to pay for certain costs and expenses incurred in connection with the research.

#### Manufacturing

We currently manufacture our cells both in-house and on an outsource basis. We manufacture cells in-house which are not required to meet stringent FDA requirements. We use these cells in our research and collaborative programs. We outsource all the manufacturing and storage of our stem cells to be used in pre-clinical works, and which are accordingly subject to higher FDA requirements, to Charles River Laboratories, Inc., of Wilmington, Massachusetts. The Charles River facility has the capacity to be used for cell processing under the FDA determined Good

Manufacturing Practices (GMP) in quantities sufficient for our current and anticipated pre-trial and clinical trial needs in both the near to intermediate term. We have no quantity or volume commitment with Charles River Laboratories and our cells are ordered and manufactured on an as needed basis.

#### Products & Marketing

Because of the early stage of our programs, we have yet to identify any specific product and we have not yet addressed questions of channels of distribution and marketing of potential future products.

#### Our Intellectual Property

Our research and development is supported by our intellectual property. We currently own or have exclusive licenses to 16 patents and 29 patent applications pending worldwide in the field of regenerative medicine and cell therapy.

Our success will likely depend upon our ability to preserve our technologies and operate without infringing the proprietary rights of other parties. However, we may rely on certain proprietary technologies and know-how that are not patentable. We protect our proprietary information, in part, by the use of confidentiality agreements with our employees, consultants and certain of our contractors.

When appropriate, we seek patent protection for inventions in our core technologies and in ancillary technologies that support our core technologies or which we otherwise believe will provide us with a competitive advantage. We accomplish this by filing patent applications for discoveries we make, either alone or in collaboration with scientific collaborators and strategic partners. Typically, although not always, we file patent applications both in the United States and in select international markets. In addition, we plan to obtain licenses or options to acquire licenses to patent filings from other individuals and organizations that we anticipate could be useful in advancing our research, development and commercialization initiatives and our strategic business interests.

The following table identifies the issued and pending patents we own that we believe currently support our technology platform.

Patents Issued

Number	Country	Filing Date	Issue Date	Expiration Date	Title
5,753,506	US	9/25/1996	5/19/1998	9/25/2016	ISOLATION PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
6,040,180	US	5/7/1997	3/21/2000	5/7/2017	IN VITRO GENERATION OF DIFFERENTIATED NEURONS FROM CULTURES OF MAMMALIAN MULTIPOTENTIAL CNS STEM CELLS
6,284,539	US	10/9/1998	9/4/2001	10/9/2018	METHOD FOR GENERATING DOPAMINERGIC CELLS DERIVED FROM NEURAL PRECURSORS
7,544,511	US	1/14/2002	6/9/2009	4/13/2017	STABLE NEURAL STEM CELL LINES
7,560,553	US	3/17/2008	7/14/2009	8/9/2024	USE OF FUSED NICOTINAMIDES TO PROMOTE NEUROGENESIS
755849	AU	9/20/1999	4/3/2003	9/20/2019	STABLE NEURAL STEM CELL LINES
915968	EP	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	ES	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC

AND ADULT CENTRAL NERVOUS  
SYSTEM OF MAMMALS

915968	FR	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	GB	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	IE	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	SE	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	CH	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
69737949.3	DE	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
132324	SG	11/17/2005	11/30/2009	11/17/2025	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
7,858,628	US	7/9/2009	12/29/2010	7/9/2029	USE OF FUSED NICOTINAMIDES TO PROMOTE NEUROGENESIS



## Patents Pending

Number	Country	Filing Date	Issue Date	Expiration Date	Title
2257068	CA	5/7/1997	N/A	N/A	ISOLATION, PROPOGATION, AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM CENTRAL NERVOUS SYSTEM OF MAMMALS
2343571	CA	9/20/1999	N/A	N/A	STABLE NEURAL STEM CELL LINES
99948396.9	EP	9/20/1999	N/A	N/A	STABLE NEURAL STEM CELL LINES
2000-574224	JP	9/20/1999	N/A	N/A	STABLE NEURAL STEM CELL LINES
3790356.4	EP	12/5/2003	N/A	N/A	METHOD FOR DISCOVERING NEUROGENIC AGENTS
11/281,640	US	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
200580039450	CN	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
5851748.3	EP	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
2613/CHENP/2007	IN	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
183092	IL	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS

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2007-543219	JP	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
10-2007-7012097	KR	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
1-2007-501016	PH	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
2007122507	RU	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
1-2007-01216	VN	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEURODEGENERATIVE CONDITIONS
20073078	NO	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
11/852,922	US	9/10/2007	N/A	N/A	METHOD FOR DISCOVERING NEUROGENIC AGENTS
11/932,923	US	10/31/2007	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
8106303.1	HK	6/5/2008	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEURODEGENERATIVE CONDITIONS
12/404,841	US	3/16/2009	N/A	N/A	METHODS OF TREATING ISCHEMIC SPASTICITY
12/424,238	US	4/15/2009	N/A	N/A	STABLE NEURAL STEM CELL LINES

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12/500,073	US	7/9/2009	N/A	N/A	USE OF FUSED NICOTINAMIDES TO PROMOTE NEUROGENESIS
12/710,097	US	2/22/2010	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEURODEGENERATIVE CONDITIONS
61/368,409	US	7/28/2010	N/A	N/A	METHODS FOR TREATING AND/OR REVERSING NEURODEGENERATIVE DISEASES AND/OR DISORDERS
PCT/US2010/046537	PCT	8/24/2010	N/A	N/A	SYNTHESIS OF A NEUROSTIMULATIVE PIPERAZINE
12010502167	PH	9/23/2010	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEURODEGENERATIVE CONDITIONS
12/939,897	US	11/04/2010	N/A	N/A	COMPOSITIONS TO EFFECT NEURONAL GROWTH
12/939,914	US	11/04/2010	N/A	N/A	COMPOSITIONS TO EFFECT NEURONAL GROWTH
2010-254952	JP	11/15/2010	N/A	N/A	STABLE NEURAL STEM CELL LINES

We also rely upon trade-secret protection for our confidential and proprietary information and take active measures to control access to that information.

Our policy is to require our employees, consultants and significant scientific collaborators and sponsored researchers to execute confidentiality and assignment of invention agreements upon the commencement of an employment or consulting relationship with us. These agreements generally provide that all confidential information developed or made known to the individual by us during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees and consultants, the agreements generally provide that all inventions conceived by the individual in the course of rendering services to us shall be our exclusive property.

The patent positions of pharmaceutical and biotechnology companies, including ours, are uncertain and involve complex and evolving legal and factual questions. The coverage sought in a patent application can be denied or significantly reduced before or after the patent is issued. Consequently, we do not know whether any of our pending applications will result in the issuance of patents, or if any existing or future patents will provide significant protection or commercial advantage or will be circumvented by others. Since patent applications are secret until the applications are published (usually eighteen months after the earliest effective filing date), and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were the first to make the inventions covered by each of our pending patent applications or that we were the first to file patent applications for such inventions. There can be no assurance that patents will issue from our pending or future patent applications or, if issued, that such patents will be of commercial benefit to us, afford us adequate protection from competing products, or not be challenged or declared invalid.

In the event that a third party has also filed a patent application relating to inventions claimed in our patent applications, we may have to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of invention, which could result in substantial uncertainties and cost for us, even if the eventual outcome is favorable to us. There can be no assurance that our patents, if issued, would be held valid by a court of competent jurisdiction.

A number of pharmaceutical, biotechnology and other companies, universities and research institutions have filed patent applications or have been issued patents relating to cell therapy, stem cells and other technologies potentially relevant to or required by our expected products. We cannot predict which, if any, of such applications will issue as patents or the claims that might be allowed.

If third party patents or patent applications contain claims infringed by our technology and such claims are ultimately determined to be valid, there can be no assurance that we would be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative non-infringing technology. If we are unable to obtain such licenses or develop or obtain alternative non-infringing technology at a reasonable cost, we may not be able to develop certain products commercially. There can be no assurance that we will not be obliged to defend ourselves in court against allegations of infringement of third party patents. Patent litigation is very expensive and could consume substantial resources and create significant uncertainties. An adverse outcome in such a suit could subject us to significant liabilities to third parties, require us to seek licenses from third parties, or require us to cease using such technology.

## Competition

The biotechnology industries are characterized by rapidly evolving technology and intense competition. Our competitors include major multinational pharmaceutical companies, specialty biotechnology companies and chemical and medical products companies operating in the fields of regenerative medicine, cell therapy, tissue engineering and

tissue regeneration. Many of these companies are well-established and possess technical, research and development, financial and sales and marketing resources significantly greater than ours. In addition, certain smaller biotech companies have formed strategic collaborations, partnerships and other types of joint ventures with larger, well established industry competitors that afford these companies potential research and development and commercialization advantages. Academic institutions, governmental agencies and other public and private research organizations are also conducting and financing research activities which may produce products directly competitive to those we are developing. Moreover, many of these competitors may be able to obtain patent protection, obtain FDA and other regulatory approvals and begin commercial sales of their products before we do.

Although not necessarily direct competitors, some of the specialty biotechnology companies include Geron Corporation, Genzyme Corporation, StemCells, Inc., Aastrom Biosciences, Inc. and Viacell, Inc. Some of these companies are well-established and have substantial technical and financial resources compared to us. However, as cell-based products are only just emerging as medical therapies, many of our direct competitors are smaller biotechnology and specialty medical products companies. These smaller companies may become significant competitors through rapid evolution of new technologies. Any of these companies could substantially strengthen their competitive position through strategic alliances or collaborative arrangements with large pharmaceutical or biotechnology companies.

The diseases and medical conditions we are targeting have no effective long-term therapies. Nevertheless, we expect that our technologies and products will compete with a variety of therapeutic products and procedures offered by major pharmaceutical companies. Many pharmaceutical and biotechnology companies are investigating new drugs and therapeutic approaches for the same purposes, which may achieve new efficacy profiles, extend the therapeutic window for such products, alter the prognosis of these diseases, or prevent their onset. We believe that our products, when and if successfully developed, will compete with these products principally on the basis of improved and extended efficacy and safety and their overall economic benefit to the health care system. Competition for our products may be in the form of existing and new drugs, other forms of cell transplantation, surgical procedures, and gene therapy. We believe that some of our competitors are also trying to develop similar stem cell-based technologies. We expect that all of these products will compete with our potential stem cell products based on efficacy, safety, cost and intellectual property positions. We may also face competition from companies that have filed patent applications relating to the use of genetically modified cells to treat disease, disorder or injury. In the event our therapies should require the use of such genetically modified cells, we may be required to seek licenses from these competitors in order to commercialize certain of our proposed products, and such licenses may not be granted or be extremely expensive.

If we develop products that receive regulatory approval, they would then have to compete for market acceptance and market share. For certain of our potential products, an important success factor will be the timing of market introduction of competitive products. This timing will be a function of the relative speed with which we and our competitors can develop products, complete the clinical testing and approval processes, and supply commercial quantities of a product to market. These competitive products may also impact the timing of clinical testing and approval processes by limiting the number of clinical investigators and patients available to test our potential products.

#### Government Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in our research and development and will be a significant factor in the manufacture and marketing of our proposed products. The nature and extent to which such regulation applies to us will vary depending on the nature of any products we may develop. We anticipate that many, if not all, of our products will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical and clinical testing and other approval procedures of the FDA and similar regulatory authorities in European and other countries. Various governmental statutes and regulations also, govern, or influence testing, manufacturing, safety, labeling, storage and recordkeeping related to such products and their marketing. The process of obtaining these approvals and the subsequent compliance with appropriate statutes and regulations require the expenditure of substantial time and money, and there can be no guarantee that approvals will be granted.

#### FDA Approval Process

Prior to commencement of clinical studies involving humans, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and safety of the product candidate. The results of these studies are submitted to the FDA as part of an IND application, which must become effective before clinical testing in humans can begin. Typically, human clinical evaluation involves a time-consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of people to assess safety and to evaluate the pattern of drug distribution and metabolism within the body. In Phase II, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. (In some cases, an initial trial is conducted in diseased patients to assess both preliminary efficacy and preliminary safety and patterns of drug metabolism and distribution, in which case it is referred to as a Phase I/II trial.) In Phase III, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical testing and may, at its discretion,

re-evaluate, alter, suspend, or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient. All adverse events must be reported to the FDA. Monitoring of all aspects of the study to minimize risks is a continuing process.

The results of the preclinical and clinical testing on non-biologic drugs and certain diagnostic drugs are submitted to the FDA in the form of a New Drug Application (NDA) for approval prior to commencement of commercial sales. In the case of vaccines or gene and cell therapies, the results of clinical trials are submitted as a Biologics License Application (BLA). In responding to an NDA/BLA submission, the FDA may grant marketing approval, may request additional information, may deny the application if it determines that the application does not provide an adequate basis for approval, and may also refuse to review an application that has been submitted if it determines that the application does not provide an adequate basis for filing and review. There can be no assurance that approvals will be granted on a timely basis, if at all, for any of our proposed products.

#### European and Other Regulatory Approval

Whether or not FDA approval has been obtained, approval of a product by comparable regulatory authorities in Europe and other countries will be necessary prior to commencement of marketing the product in such countries. The regulatory authorities in each country may impose their own requirements and may refuse to grant an approval, or may require additional data before granting it, even though the relevant product has been approved by the FDA or another authority. As with the FDA, the regulatory authorities in the European Union (EU) and other developed countries have lengthy approval processes for pharmaceutical products. The process for gaining approval in particular countries varies, but generally follows a similar sequence to that described for FDA approval. In Europe, the European Committee for Proprietary Medicinal Products provides a mechanism for EU-member states to exchange information on all aspects of product licensing. The EU has established a European agency for the evaluation of medical products, with both a centralized community procedure and a decentralized procedure, the latter being based on the principle of licensing within one member country followed by mutual recognition by the other member countries.

## Other Regulations

We are also subject to various U.S. federal, state, local and international laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with our business. We cannot accurately predict the extent of government regulation which might result from future legislation or administrative action.

For additional information about governmental regulations that will affect our planned and intended business operations, see "Risk Factors."

## Employees

As of March 1, 2011, we had 14 full-time employees and 4 full time independent contractors. Of these employees, 8 work on research and development and 6 in administration. We also use the services of numerous outside consultants in business and scientific matters.

## Where to Find More Information

We make our public filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all exhibits and amendments to these reports. Also our executive officers, directors and holders of more than 10% of our common stock, file reports with the SEC on Forms 3, 4 and 5 regarding their ownership of our securities. These materials are available on the SEC's web site, <http://www.sec.gov>. You may also read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Alternatively, you may obtain copies of these filings, including exhibits, by writing or telephoning us at:

NEURALSTEM, INC  
9700 Great Seneca Highway,  
Rockville, Maryland 20850  
Attn: Chief Financial Officer  
Tel: (301) 366-4841

## ITEM 1A. RISK FACTORS

We have described below a number of uncertainties and risks which, in addition to uncertainties and risks presented elsewhere in this Annual Report, may adversely affect our business, operating results and financial condition. The uncertainties and risks enumerated below as well as those presented elsewhere in this Annual Report should be considered carefully in evaluating us, our business and the value of our securities. The following important factors, among others, could cause our actual business, financial condition and future results to differ materially from those contained in forward-looking statements made in this Annual Report or presented elsewhere by management from time to time.

### Risks Relating to Our Stage of Development

We have a limited operating history and a history of losses.



Since inception in 1996 and through December 31, 2010, we have raised \$93,808,481 of capital and recorded accumulated losses totaling \$85,954,131. On December 31, 2010, we had a working capital surplus of \$7,093,237 and stockholders' equity of \$7,854,350. Our net losses for the two most recent fiscal years have been \$18,387,300 and \$10,364,363 for 2010 and 2009 respectively. In November 2010, we were awarded three federal grants, totaling \$733,438 through the Patient Protection and Affordable Care Act. These are the only revenues for the twelve months ended December 31, 2010. We had no revenue for the year ended December 31, 2009.

Our ability to generate revenues and achieve profitability will depend upon our ability to complete the development of our proposed products, obtain the required regulatory approvals, manufacture, and market and sell our proposed products. Although we have generated some revenue in prior years, we have not generated any revenue from the commercial sale of our proposed products. Since inception, we have engaged in several related lines of business and have discontinued operations in certain areas. This limited and changing history may not be adequate to enable you to fully assess our future prospects. No assurances can be given as to exactly when, if at all, we will be able to fully develop, commercialize, market, sell and/or derive material revenues from our proposed products

We will need to raise additional capital to continue operations.

Since inception, we have relied almost entirely on external financing to fund operations. Such financing has come primarily from the sale of our securities. As of December 31, 2010, we had cash and cash equivalents on hand of \$9,261,233. Presently, we have a monthly cash burn rate of approximately \$900,000. We will need to raise additional capital to fund anticipated operating expenses and future expansion. Among other things, external financing will be required to further develop our technologies and products, as well as to pay general operating costs. We are currently sponsoring three (3) Phase I clinical trials. As a result of our ongoing, as well as proposed trials, we will need additional capital in order to pay for expenses associated with these trials as well as fund our general operations.

We have expended and expect to continue to expend substantial cash in the research, development, clinical and pre-clinical testing of our stem cell technologies with the goal of ultimately obtaining FDA approval to market our proposed products. We will require additional capital to conduct research and development, establish and conduct clinical and pre-clinical trials, enter into commercial-scale manufacturing arrangements and to provide for marketing and distribution of our products. We cannot assure you that financing will be available if needed. If additional financing is not available, we may not be able to fund operations and planned growth, develop or enhance our technologies, take advantage of business opportunities or respond to our competitive market pressures. If we exhaust our cash reserves and are unable to realize adequate additional financing, we may be unable to meet operating obligations which could result in us initiating bankruptcy proceedings or delaying, or eliminating some or all of our research and product development programs.

Additional financing requirements could result in dilution to existing stockholders.

We do not generate any revenue. Accordingly, we will be required to issue our securities in order to secure additional financing. The issuance of additional securities may be dilutive to current shareholders. We are authorized to issue 150,000,000 shares of common stock and 7,000,000 shares of preferred stock. Such securities may generally be issued without the approval or consent of our stockholders. The issuance of such securities may result in substantial dilution.

#### Risks Relating to Our Business

Our business is dependent on the successful development of our product candidates.

At present our ability to progress as a company is significantly dependent on our two (2) product candidates currently in Phase I trials. Any clinical, regulatory or other development that significantly delays or prevents us from completing any of our trials, any material safety issue or adverse side effect to any study participant in these trials, or the failure of these trials to show the results expected would likely depress our stock price significantly and could prevent us from raising the additional capital we will need to further develop our cellular technologies. Moreover, any material adverse occurrence in our clinical trials could substantially impair our ability to initiate clinical trials to test our product candidates in other potential indications. This, in turn, could adversely impact our ability to raise additional capital and pursue our planned research and development efforts.

Our business relies on stem cell technologies that we may not be able to commercially develop.

We have concentrated the majority of our research on stem cell technologies. Our ability to generate revenue and operate profitably will depend on being able to develop these technologies for human applications. These are emerging technologies and have limited human applications. We cannot guarantee that we will be able to develop our technologies or that such development will result in products with any commercial utility or value. We anticipate that the commercial sale of such products and royalty/licensing fees related to the technology, will be our primary sources

of revenues. If we are unable to develop our technologies, we may never realize any revenue.

Our product development programs are based on novel technologies and are inherently risky.

We are subject to the risks of failure inherent in the development of products based on new technologies. The novel nature of these therapies creates significant challenges in regard to product development and optimization, manufacturing, government regulation, third party reimbursement, and market acceptance. For example, the pathway to regulatory approval for cell-based therapies, including our product candidates, may be more complex and lengthy than the pathway for conventional drugs. These challenges may prevent us from developing and commercializing products on a timely or profitable basis or at all.

Our inability to complete pre-clinical and clinical testing and trials will impair our viability.

We are currently undertaking two (2) sponsored Phase I clinical trials. Although we have commenced the trials, the outcome of the trials is uncertain, and if we are unable to satisfactorily complete such trials, or if such trials yield unsatisfactory results, we will be unable to commercialize our proposed products. No assurances can be given that the clinical trials will be completed or result in a successful outcome. If regulatory authorities do not approve our products or if we fail to maintain regulatory compliance, we would be unable to commercialize our therapeutic products, and our business and results of operations would be materially harmed.

Our proposed products may not have favorable results in clinical trials or receive regulatory approval.

Positive results from pre-clinical studies should not be relied upon as evidence that our clinical trials will succeed. Even if our product candidates achieve positive results in pre-clinical studies, we will be required to demonstrate through clinical trials that the product candidates are safe and effective for use in a diverse population before we can seek regulatory approvals for their commercial sale. There is typically an extremely high rate of attrition from the failure of product candidates as they proceed through clinical trials. If any product candidate fails to demonstrate sufficient safety and efficacy in any clinical trial, then we would experience potentially significant delays in, or be required to abandon, development of that product candidate. If we delay or abandon our development efforts of any of our product candidates, then we may not be able to generate sufficient revenues to become profitable, and our operations could be materially harmed.

There are no assurances that we will be able to submit or obtain FDA approval of a biologics license application.

There can be no assurance that even if the clinical trials of any potential product candidate are successfully initiated and completed, that we will be able to submit a Biologics License Application (“BLA”) to the FDA or that any BLA we submit will be approved in a timely manner, if at all. If we are unable to submit a BLA with respect to any future product candidate, or if any BLA we submit is not approved by the FDA, we will be unable to commercialize that product. The FDA can and does reject BLAs and requires additional clinical trials, even when product candidates performed well or achieved favorable results in clinical trials. If we fail to commercialize our product candidate, we may be unable to generate sufficient revenues to attain profitability and our reputation in the industry and in the investment community would likely be damaged, each of which would cause our stock price to decrease.

The manufacturing of stem cell-based therapeutic products is novel and dependent upon specialized key materials.

The manufacturing of stem cell-based therapeutic products is a complicated and difficult process, dependent upon substantial know-how and subject to the need for continual process improvements. We depend almost exclusively on third party manufacturers to supply our cells. In addition, our suppliers’ ability to scale-up manufacturing to satisfy the various requirements of our planned clinical trials is uncertain. Manufacturing irregularities or lapses in quality control could have a material adverse effect on our reputation and business, which could cause a significant loss of stockholder value. Many of the materials that we use to prepare our cell-based products are highly specialized, complex and available from only a limited number of suppliers. At present, some of our material requirements are single sourced, and the loss of one or more of these sources may adversely affect our business

Our business is subject to ethical and social concerns.

The use of stem cells for research and therapy has been the subject of debate regarding ethical, legal and social issues. Negative public attitudes toward stem cell therapy could result in greater governmental regulation of stem cell therapies, which could harm our business. For example, concerns regarding such possible regulation could impact our ability to attract collaborators and investors. Existing and potential U.S. government regulation of human tissue may lead researchers to leave the field of stem cell research or the country altogether, in order to assure that their careers will not be impeded by restrictions on their work. Similarly, these factors may induce graduate students to choose other fields less vulnerable to changes in regulatory oversight, thus exacerbating the risk that we may not be able to attract and retain the scientific personnel we need in the face of competition among pharmaceutical, biotechnology and health care companies, universities and research institutions for what may become a shrinking class of qualified individuals

We may be subject to litigation that will be costly to defend or pursue and uncertain in its outcome.

Our business may bring us into conflict with licensees, licensors, or others with whom we have contractual or other business relationships or with our competitors or others whose interests differs from ours. If we are unable to resolve these conflicts on terms that are satisfactory to all parties, we may become involved in litigation brought by or against it. Any litigation is likely to be expensive and may require a significant amount of management's time and attention, at the expense of other aspects of our business. The outcome of litigation is always uncertain, and in some cases could include judgments against us which could have a materially adverse effect on our business. By way of example, in May of 2008, we filed a complaint against StemCells Inc., alleging that U.S. Patent No. 7,361,505 (the "'505 patent"), allegedly exclusively licensed to StemCells, Inc., is invalid, not infringed and unenforceable. On the same day, StemCells, Inc. filed a complaint alleging that we had infringed, contributed to the infringement of, and or induced the infringement of two patents owned by or exclusively licensed to StemCells relating to stem cell culture compositions. At present, the litigation is in its initial stages and any likely outcome is difficult to predict.

We may not be able to obtain necessary licenses to third-party patents and other rights.

A number of companies, universities and research institutions have filed patent applications or have received patents relating to technologies in our field. We cannot predict which, if any, of these applications will issue as patents or how many of these issued patents will be found valid and enforceable. There may also be existing issued patents on which we would be infringed by the commercialization of our product candidates. If so, we may be prevented from commercializing these products unless the third party is willing to grant a license to us. We may be unable to obtain licenses to the relevant patents at a reasonable cost, if at all, and may also be unable to develop or obtain alternative non-infringing technology. If we are unable to obtain such licenses or develop non-infringing technology at a reasonable cost, our business could be significantly harmed. Also, any infringement lawsuits commenced against us may result in significant costs, divert our management's attention and result in an award against us for substantial damages, or potentially prevent us from continuing certain operations.

We may not be able to obtain third-party patient reimbursement or favorable product pricing.

Our ability to successfully commercialize our proposed products in the human therapeutic field depends to a significant degree on patient reimbursement of the costs of such products and related treatments. We cannot assure you that reimbursement in the United States or foreign countries will be available for any products developed, or, if available, will not decrease in the future, or that reimbursement amounts will not reduce the demand for, or the price of, our products. We cannot predict what additional regulation or legislation relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such regulation or legislation may have on our business. If additional regulations are overly onerous or expensive or if health care related legislation makes our business more expensive or burdensome than originally anticipated, we may be forced to significantly downsize our business plans or completely abandon the current business model.

Our products may not be profitable due to manufacturing costs.

Our products may be significantly more expensive to manufacture than other drugs or therapies currently on the market today due to a fewer number of potential manufacturers, greater level of needed expertise and other general market conditions affecting manufacturers of stem cell based products. Accordingly, we may not be able to charge a high enough price for us to make a profit from the sale of our cell therapy products.

We are dependent on the acceptance of our products by the health care community.

Our proposed products, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide not to accept and utilize these products. The products that we are attempting to develop represent substantial departures from established treatment methods and will compete with a number of more conventional drugs and therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance will depend on a number of factors, including:

- the clinical efficacy and safety of our proposed products;
- the superiority of our products to alternatives currently on the market;
- the potential advantages of our products over alternative treatment methods; and
- the reimbursement policies of government and third-party payors.

If the health care community does not accept our products for any reason, our business would be materially harmed.

We depend on key employees for our continued operations and future success.

We are highly dependent on our chief executive officer, chief scientific officer and outside consultants. Although we have entered into employment and consulting agreements with these parties, these agreements can be terminated at anytime. The loss of any of these key employee or consultant could adversely affect our opportunities and materially harm our future prospects. In addition, we anticipate growth and expansion into areas and activities requiring additional expertise, such as clinical testing, regulatory compliance, manufacturing and marketing. We anticipate the need for additional management personnel and the development of additional expertise by existing management personnel. There is intense competition for qualified personnel in the areas of our present and planned activities, and there can be no assurance that we will be able to continue to attract and retain the qualified personnel necessary for the development our business.

The employment contracts of key employees contain significant anti-termination provisions which could make changes in management difficult or expensive.

We have entered into employment agreements with Messrs. Garr and Johe which expire on November 1, 2012. In the event either individual is terminated prior to the full term of their respective contracts, for any reason other than a voluntary resignation, all compensation due to such employee under the terms of the respective agreement shall become due and payable immediately. These provisions will make the replacement of either of these employees very costly and could cause difficulty in effecting a change in control. Termination prior to the full term of these contracts would cost us as much as \$1,000,000 per contract and the immediate vesting of all outstanding options and/or warrants held by Messrs. Garr and Johe.

Our competition has significantly greater experience and financial resources.

The biotechnology industry is characterized by intense competition. We compete against numerous companies, many of which have substantially greater resources. Several such enterprises have initiated cell therapy research programs and/or efforts to treat the same diseases which we target. Although not necessarily direct competitors, companies such as Geron Corporation, Genzyme Corporation, StemCells, Inc., Advanced Cell Technology, Inc., Aastrom Biosciences, Inc. and Viacell, Inc., as well as others, may have substantially greater resources and experience in our fields which put us at a competitive disadvantage.

Our outsource model depends on third parties to assist in developing and testing our proposed products.

Our strategy for the development, clinical and preclinical testing and commercialization of our proposed products is based on an outsource model. This model requires us to engage third parties in order to further develop our technology and products as well as for the day to day operations of our business. In the event we are not able to enter into such relationships in the future, our ability to operate and develop products may be seriously hindered or we would be required to expend considerable resources to bring such functions in-house. Either outcome could result in our inability to develop a commercially feasible product or in the need for substantially more working capital to complete the research in-house.

The development, manufacturing and commercialization of cell-based therapeutic products expose us to product liability claims.

By developing and, ultimately, commercializing medical products, we are exposed to the risk of product liability claims. Product liability claims against us could result in substantial litigation costs and damage awards against us. We have obtained liability insurance that covers our clinical trials. If and when we begin commercializing products, we will need to increase our insurance coverage. We may not be able to obtain insurance on acceptable terms, if at all, and the policy limits on our insurance policies may be insufficient to cover our liability.

We intend to rely upon third-party FDA-approved manufacturers for our stem cells.

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. Should we be forced to manufacture our stem cells, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure alternative third party suppliers. Moreover, we cannot give you any assurance that any contract manufacturers or suppliers we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications.

#### Risks Relating to Our Common Stock

Our common shares are “thinly” traded.

Our common shares have historically been “thinly” traded, meaning that the number of persons interested in purchasing our common shares at or near the asking price at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the facts that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community. Even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven development stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares if you need money or otherwise desire to liquidate your investment.

The market price for our common shares is particularly volatile.



The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than those of a seasoned issuer. The volatility in our share price is attributable to a number of factors. First, there is limited liquidity in the market for our common shares. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand. Secondly, we are a speculative or “risky” investment due to our limited operating history, lack of significant revenues to date and the uncertainty of future market acceptance for our products if successfully developed. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management’s attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; government regulations; announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

We face risks related to compliance with corporate governance laws and financial reporting standard.

The Sarbanes-Oxley Act of 2002, as well as related new rules and regulations implemented by the SEC and the Public Company Accounting Oversight Board, require changes in the corporate governance practices and financial reporting standards for public companies. These new laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to internal control over financial reporting (“Section 404”), will materially increase the Company's legal and financial compliance costs and make some activities more time-consuming, burdensome and expensive. Since the enactment the Sarbanes-Oxley Act, we have been classified as a smaller reporting company and as a result, we have been exempt from Section 404(b). As of June 30, 2010, the market value of our securities exceeded the threshold for a smaller reporting company. As a result, commencing with this Annual Report, we will be subject to Section 404(b). We anticipate this will further increase the costs associated with our compliance with the Sarbanes-Oxley Act of 2002.

Any failure to comply with the requirements of the Sarbanes-Oxley Act of 2002, our ability to remediate any material weaknesses that we may identify during our compliance program, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls and, in the case of a failure to remediate any material weaknesses that we may identify, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We have never paid a cash dividend and do not intend to pay cash dividends on our common stock in the foreseeable future.

We have never paid cash dividends nor do we anticipate paying cash dividends in the foreseeable future. Accordingly, any return on your investment will be as a result of stock appreciation.

Issuance of additional securities could dilute your proportionate ownership and voting rights.

We are entitled under our amended and restated certificate of incorporation to issue up to 150,000,000 common and 7,000,000 “blank check” preferred shares. As of December 31, 2010, we have issued and outstanding 46,897,529 common shares, 25,613,299 common shares reserved for issuance upon the exercise of current outstanding options, warrants, restricted stock units and convertible securities, and an aggregate of 6,857,241 common shares reserved for issuance under our incentive stock plans. Accordingly, we will be entitled to issue up to 70,631,931 additional common shares and 7,000,000 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, or securities convertible into those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issue shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our various stock option plans, in order to attract and retain qualified personnel. In the event of issuance, your proportionate ownership and voting rights may be significantly decreased and the value of your investment impacted.

Risks Relating to Intellectual Property and Government Regulation

We may not be able to withstand challenges to our intellectual property rights.

We rely on our intellectual property, including issued and applied-for patents, as the foundation of our business. Our intellectual property rights may come under challenge. No assurances can be given that, even though issued, our current and potential future patents will survive such challenges. For example, in 2005 our neural stem cell technology was challenged in the USPTO. Although we prevailed in this particular matter upon re-examination by the patent office, these cases are complex, lengthy, expensive, and could potentially be adjudicated adversely to our interests, removing the protection afforded by an issued patent. The viability of our business would suffer if such patent protection were limited or eliminated. Moreover, the costs associated with defending or settling intellectual property claims would likely have a material adverse effect on our business and future prospects. At present, there is litigation with StemCells, Inc. which is in its initial stages and any likely outcome is difficult to predict.

We may not be able to adequately protect against the piracy of the intellectual property in foreign jurisdictions.

We anticipate conducting research in countries outside of the United States including through our subsidiary, currently being formed, in the Peoples Republic of China. A number of our competitors are located in these countries and may be able to access our technology or test results. The laws protecting intellectual property in some of these countries may not adequately protect our trade secrets and intellectual property. The misappropriation of our intellectual property may materially impact our position in the market and any competitive advantages, if any, that we may have.

Our products may not receive regulatory approval.

The FDA and comparable government agencies in foreign countries impose substantial regulations on the manufacturing and marketing of pharmaceutical products through lengthy and detailed laboratory, pre-clinical and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Satisfaction of these regulations typically takes several years or more and vary substantially based upon the type, complexity and novelty of the proposed product. We are currently undertaking two (2) sponsored Phase I clinical trials. We cannot assure you that we will successfully complete any clinical trials in connection with such INDs. Further, we cannot predict when we might first submit any product license application for FDA approval or whether any such product license application will be granted on a timely basis, if at all. Moreover, we cannot assure you that FDA approvals for any products developed by us will be granted on a timely basis, if at all. Any delay in obtaining, or failure to obtain, such approvals could have a material adverse effect on the marketing of our products and our ability to generate product revenue.

Development of our technologies is subject to extensive government regulation.

Our research and development efforts, as well as any future clinical trials, and the manufacturing and marketing of any products we may develop, will be subject to, and restricted by, extensive regulation by governmental authorities in the United States and other countries. The process of obtaining FDA and other necessary regulatory approvals is lengthy, expensive and uncertain. FDA and other legal and regulatory requirements applicable to the development and manufacture of the cells and cell lines required for our preclinical and clinical products could substantially delay or prevent us from producing the cells needed to initiate additional clinical trials. We may fail to obtain the necessary approvals to commence clinical testing or to manufacture or market our potential products in reasonable time frames, if at all. In addition, the U.S. Congress and other legislative bodies may enact regulatory reforms or restrictions on the development of new therapies that could adversely affect the regulatory environment in which we operate or the development of any products we may develop.

We base our research and development on the use of human stem cells obtained from human tissue. The U.S. federal and state governments and other jurisdictions impose restrictions on the acquisition and use of human tissue, including those incorporated in federal Good Tissue Practice, or “GTP,” regulations. These regulatory and other constraints could prevent us from obtaining cells and other components of our products in the quantity or of the quality needed for their development or commercialization. These restrictions change from time to time and may become more onerous. Additionally, we may not be able to identify or develop reliable sources for the cells necessary for our potential products — that is, sources that follow all state and federal laws and guidelines for cell procurement. Certain components used to manufacture our stem and progenitor cell product candidates will need to be manufactured in compliance with the FDA’s GMP. Accordingly, we will need to enter into supply agreements with companies that manufacture these components to GMP standards. There is no assurance that we will be able to enter into any such agreements.

Noncompliance with applicable requirements both before and after approval, if any, can subject us, our third party suppliers and manufacturers and our other collaborators to administrative and judicial sanctions, such as, among other things, warning letters, fines and other monetary payments, recall or seizure of products, criminal proceedings, suspension or withdrawal of regulatory approvals, interruption or cessation of clinical trials, total or partial suspension of production or distribution, injunctions, limitations on or the elimination of claims we can make for our products, refusal of the government to enter into supply contracts or fund research, or government delay in approving or refusal to approve new drug applications.

We cannot predict if or when we will be permitted to commercialize our products due to regulatory constraints.

Federal, state and local governments and agencies in the United States (including the FDA) and governments in other countries have significant regulations in place that govern many of our activities. We are, or may become, subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances used in connection with its research and development work. The preclinical testing and clinical trials of our proposed products are subject to extensive government regulation that may prevent us from creating commercially viable products. In addition, our sale of any commercially viable product will be subject to government regulation from several standpoints, including manufacturing, advertising, marketing, promoting, selling, labeling and distributing. If, and to the extent that, we are unable to comply with these regulations, our ability to earn revenues, if any, will be materially and negatively impacted.

## ITEM 2. PROPERTIES

We currently lease two facilities. Our executive offices and primary research facilities are located at 9700 Great Seneca Highway, Rockville MD, 20850. We lease these facilities consisting of approximately 3,200 square feet for \$12,130 per month. The term of our lease expires on January 31, 2012.

We entered into a lease in 2009 consisting of approximately 2,375 square feet of research space in San Diego, California at a monthly lease rate of \$4,806. The lease terminates in August of 2011.

The aforesaid properties are in good condition and we believe they will be suitable for our purposes for the next 12 months. There is no affiliation between us or any of our principals or agents and our landlords or any of their principals or agents.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this Annual Report, there are no material pending legal or governmental proceedings relating to our company or properties to which we are a party, and to our knowledge there are no material proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us, other than the following:

- On May 7, 2008, we filed suit against StemCells, Inc., StemCells California, Inc. (collectively “StemCells”) and Neurospheres Holding Ltd., (collectively StemCells and Neurospheres Holding Ltd are referred to as “Plaintiffs”) in U.S. District Court for the District of Maryland, alleging that U.S. Patent No. 7,361,505 (the “’505 patent”), alleging that the ‘505 patent was exclusively licensed to the Plaintiffs, is invalid, not infringed, and unenforceable. See Civil Action No. 08-1173. On May 13, we filed an Amended Complaint seeking declaratory judgment that U.S. Patent No. 7,155,418 (the “’418 patent”) is invalid and not infringed and that certain statements made by our CEO are not trade libel or do not constitute unfair competition as alleged by the Plaintiffs. On July 15, 2008, the Plaintiffs filed a Motion to Dismiss for Lack of Subject Matter Jurisdiction, Lack of Personal Jurisdiction, and Improper Venue or in the Alternative to Transfer to the Northern District of California. On August 27, 2008, Judge Alexander Williams, Jr. of the District of Maryland denied StemCells’ Motion to Dismiss, but granted Neurospheres’ motion to dismiss. On September 11, 2008, StemCells filed its answer asserting counterclaims of infringement for the ‘505 patent, the 418 patent, and state law claims for trade libel and unfair competition. This case was consolidated with the 2006 litigation discussed below and it is not known when, nor on what basis, this matter will be concluded.
- On July 28, 2006, StemCells, Inc., filed suit against Neuralstem, Inc. in the U.S. District Court in Maryland, alleging that Neuralstem has been infringing, contributing to the infringement of, and or inducing the infringement of four patents owned by or exclusively licensed to StemCells relating to stem cell culture compositions, genetically modified stem cell cultures, and methods of using such cultures. See Civil Action No. 06-1877. We answered the Complaint denying infringement, asserting that the patents are invalid, asserting that we have intervening rights based on amendments made to the patents during reexamination proceedings, and further asserting that some of the patents are unenforceable due to inequitable conduct. Neuralstem has also asserted counterclaims that StemCells has engaged in anticompetitive conduct in violation of antitrust laws. Discovery has commenced and it is not known when, nor on what basis, this matter will be concluded.

ITEM 4. REMOVED AND RESERVED.

PART II

ITEM MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NYSE Amex under the symbol "CUR." The following table sets forth, for the periods indicated, the high and low intraday sale prices for our common stock.

	High	Low
2009		
First Quarter	\$1.90	\$0.75

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Second Quarter	\$1.35	\$0.98
Third Quarter	\$2.95	\$1.02
Fourth Quarter	\$2.29	\$1.23
2010		
First Quarter	\$2.50	\$1.75
Second Quarter	\$3.49	\$1.92
Third Quarter	\$2.64	\$1.71
Fourth Quarter	\$2.71	\$1.83

## Holders

As of March 1, 2010 our common stock was held by approximately 495 record holders. We believe our actual number of shareholders may be significantly higher as 42,831,377 shares are currently being held in street name.

## Dividends

We have not paid any cash dividends to date and have no plans to do so in the immediate future.

## Equity Compensation Plan Information

The following table sets forth information with respect to our equity compensation plans as of December 31, 2010.

	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders			
2005 Stock Plan, as amended	3,763,617	\$ 1.24	236,383
2007 Stock Plan	5,460,000	3.37	568,846
2010 Stock Plan	947,988	2.21	6,052,012
Equity compensation plans not approved by security holders			
	N/A	N/A	N/A
<b>Total</b>	<b>10,171,605</b>	<b>\$ 2.44</b>	<b>6,857,241</b>

## Recent Sales of Unregistered Securities

The following information is given with regard to unregistered securities sold during the period covered by this report. The unregistered securities were issued pursuant to section 4(2) of the Securities Act:

- On January 8, 2010, pursuant to a consulting agreement for investor relations and business development services, we issued Market Development Consulting Group, Inc.: (i) 140,000 common shares; and (ii) a common stock purchase warrant entitling the holder to purchase 400,000 shares of common stock at \$1.70 per share. The warrant is exercisable immediately, shall expire on December 31, 2019, and is freely assignable in whole or in part. We also agreed to register the shares underlying the warrant with the SEC for resale.
- On January 15, 2010, we issued a consultant options to purchase an aggregate of 45,000 common shares at \$2.40 per share. The options vest as follows: (i) 25,000 upon grant; and (ii) 20,000 on December 31, 2010. The options have a term of 5 years.
  - On January 15, 2010, we issued a consultant options to purchase an aggregate of 100,000 common shares at \$2.40 per share. The options are 100% vested upon grant and have a term of 7 years.



- On January 29, 2010, as an inducement to exercise 800,000 Series D Warrants, we issued Vicis Capital Master Fund a replacement warrant. As a result of the exercise, we received gross proceeds in the amount of \$1,000,000. The replacement warrant entitles the holder to purchase 400,000 common shares at price of \$1.85 per share. The warrant has a term of 1 year.
- In March of 2010, in connection with the exercise of 2,699,400 Series C Warrants, we issued the prior warrant holders an aggregate of 2,699,400 replacement warrants. As a result of the exercise, we received gross proceeds in the amount of \$3,374,250. The replacement warrant is substantially the same as the prior Series C warrants except that: (i) the exercise price is \$2.13; (ii) the replacement warrants expire 5 years from the date they were issued; (iii) is callable by the company in the event our common stock trades above \$5.00 and certain other conditions are met, and (iv) the replacement warrants do not provide for any anti-dilution rights.
- In March of 2010, in connection with the exercise of 782,005 placement agent warrants, we issued T.R. Winston & Company, LLC, a replacement warrant to purchase 782,005. As a result of the exercise, we received gross proceeds in the amount of \$860,205. The replacement warrant is substantially the same as the prior warrants issued to our Series C Warrant holders except that: (i) the exercise price is \$2.13; (ii) the replacement warrants expire 5 years from the date they were issued; and (iii) the replacement warrants do not provide for any anti-dilution rights.

- In March of 2010, we amended 706,752 placement agent warrants held by TR Winston & Company, LLC. Pursuant to the amendment, we agreed to extend the expiration date of the placement agent warrants from March 15, 2012 to March 15, 2014 in exchange for the removal of the anti-dilution provisions from said warrants. We did not receive any additional consideration in connection with the amendment.
- On May 14, 2010, as consideration for amending a consulting agreement for investor relations and business development services, we issued Market Development Consulting Group, Inc. a common stock purchase warrant entitling the holder to purchase 200,000 shares of common stock at \$3.17 per share. The warrant is exercisable immediately, shall expire on May 14, 2020, and is freely assignable in whole or in part. The warrant is substantially similar to the consultant warrant issued on January 8, 2010.
- In June of 2010, we issued Noble International Investment, Inc., D/B/A Noble Financial Capital Markets a warrant to purchase 250,001 common shares. The warrant was issued as compensation for placement agent services which Noble International Investments, Inc., performed in connection with our \$10 million registered direct offering of units. The warrant is substantially the same as the investor warrant issued in the offering and has: (i) an exercise price of \$3.25, and (ii) a term of three years.
- On January 6, 2011, pursuant to the terms of the consulting agreement entered into with Market Development Consulting Group, Inc. in January of 2010 and amended May 14, 2010 and February 7, 2011, we issued: (i) 120,000 common shares; and (ii) a common stock purchase warrant entitling the holder to purchase 596,675 shares of common stock at \$2.14 per share. The common stock is deliverable on April 1, 2011. The warrant is exercisable immediately, shall expire on January 6, 2021, and is freely assignable in whole or in part. We also agreed to register the shares underlying the warrant with the SEC for resale.

#### ITEM 6. SELECTED FINANCIAL DATA

We are not required to provide the information as to selected financial data as we are considered a smaller reporting company.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying financial statements and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Overview — Discussion of our business and overall analysis of financial and other highlights affecting the Company in order to provide context for the remainder of MD&A.
- Trends & Outlook — Discussion of what we view as the overall trends affecting our business and the strategy for 2011.
- Critical Accounting Policies— Accounting policies that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
  - Results of Operations— Analysis of our financial results comparing 2010 to 2009.
- Liquidity and Capital Resources— An analysis of changes in our balance sheet and cash flows and discussion of our financial condition and future liquidity needs.

The various sections of this MD&A contain a number of forward-looking statements. Words such as “expects,” “goals,” “plans,” “believes,” “continues,” “may,” and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the “Overview” and “Trends & Outlook” section (see also “Risk Factors” in Part I, Item 1A of this Annual Report). Our actual results may differ materially.

#### Overview

We are focused on the development and commercialization of treatments based on transplanting human neural stem cells and small molecule compounds.

We have developed and maintain a portfolio of patents and patent applications that form the proprietary base for our research and development efforts in the area of neural stem cell research. We own or exclusively license sixteen (16) issued patents and twenty-nine (29) patent pending applications in the field of regenerative medicine and related technologies. We believe our technology base, in combination with our know-how, and collaborative projects with major research institutions, provide a competitive advantage and will facilitate the development and commercialization of products for use in the treatment of a wide array of neurodegenerative conditions and in regenerative repair of acute disease.

Regenerative medicine is a young and emerging field. Regenerative medicine is the process of creating living, functional tissues to repair or replace tissue or organ function lost due to age, disease, damage, or congenital defects. There can be no assurances that our intellectual property portfolio will ultimately produce viable commercialized products and processes. Even if we are able to produce a commercially viable product, there are strong competitors in this field and our products may not be able to successfully compete against them.

All of our research efforts to date are at the pre-clinical or clinical stage of development. We are focused on leveraging our key assets, including our intellectual property, our scientific team and our facilities, to advance our technologies. In addition, we are pursuing strategic collaborations with members of academia.

#### Research

We have devoted substantial resources to our research programs in order to isolate and develop a series of neural stem cell banks that we believe can serve as a basis for our therapeutic products. Our efforts to date have been directed at methods to identify, isolate and culture large varieties of stem cells of the human nervous system, and to develop therapies utilizing these stem cells. This research is conducted internally, through the use of third party laboratories and consulting companies under our direct supervision, and through collaboration with academic institutes.

#### Operating Strategy

We employ an outsourcing strategy where we outsource all of our Good Laboratory Practices (“GLP”) preclinical development activities and GMP manufacturing and clinical development activities to contract research organizations (“CRO”) and contract manufacturing organizations (“CMO”) as well as all non critical corporate functions. Manufacturing is also outsourced to organizations with approved facilities and manufacturing practices. This outsource model allows us to better manage cash on hand and eliminates non-vital expenditures. It also allows for us to operate with relatively fewer employees and lower fixed costs than that required by our competitors.

#### Trends & Outlook

##### Revenue

In November 2010, we were awarded three federal grants, totaling \$733,438 through the Patient Protection and Affordable Care Act, We had no other revenues for the year ended December 31, 2010. Our focus is on: (i) successfully managing our two (2) sponsored clinical trial, and (ii) preparing for the initiation of our IND relating to Chronic Spinal Cord injury. We are also pursuing pre-clinical studies on other central nervous system indications in preparation for additional clinical trials. We are not focused at this time on generating revenues.

Long-term, we anticipate our revenue will be derived primarily from licensing fees and sales of our cell based therapy and small molecule compounds. Because we are at such an early stage in the clinical trials process, we are not yet able to accurately predict when we will have a product ready for commercialization, if ever.

In November 2010, we were awarded three Federal grants, totaling \$733,438 through the Patient Protection and Affordable Care Act, which supports investments in qualifying therapeutic discovery projects. The funding will help us move our small molecule treatment for depression into the clinic, and advance our ongoing trial to treat ALS with our spinal cord stem cells. The third grant will go to developing our IGF1-expressing neural stem cell therapy product, which could also target ALS. In this program, we are focused on engineering our spinal cord neurons to over-express molecules of interest, such as IGF1 (insulin-like growth factor 1). As of December 31, 2010, we have received \$575,406 of the grant. We expect to receive the balance of the funds during the first quarter of 2011. These are one-time grants.

#### Research & Development Expenses

Our research and development costs consist of expenses incurred in identifying, developing and testing treatments for central nervous system diseases. These expenses consist primarily of salaries and related expenses for personnel, fees paid to professional service providers and academic collaborators for research, testing, contract manufacturing, costs of facilities, and the preparation of regulatory applications and reports.

We focus on the development of treatment candidates with potential uses in multiple indications, and use employee and infrastructure resources across several projects. Accordingly, many of our costs are not attributable to a specifically identified product and we do not account for internal research and development costs on a project-by-project basis.

We expect that research and development expenses will increase in the future, as funding allows. To the extent that it is practical, we will continue to outsource much of our efforts, including product manufacture, proof of principle and preclinical testing, toxicology, tumorigenicity, dosing rationale, and development of clinical protocol and IND applications. This approach allows us to use the best expertise available for each task and permits staging new research projects to fit available cash resources.

We have formed a wholly owned subsidiary in the People's Republic of China. This subsidiary will primarily conduct research with regard to stem cells.

#### Clinical Trials

##### Stem Cells

Our top development priority is our ongoing clinical trial for ALS at Emory University in Atlanta. We estimate that the Phase I trial for ALS will require 18 patients at an estimated cost of \$130,000 per patient. The per patient cost includes the costs of the operation to administer our spinal cord cells, post operation treatment for the patient, Emory University's charges for running the trial and third party trial monitoring and data collection. Our spending on an individual patient will be spread over the life of the trial as the majority of our costs are incurred after the patient has been operated on. We expect trial spending to gradually decrease to \$100,000 per month after a number of patients have been treated. To date, we have treated 11 patients. It is still too early in the trials to make any determination as to its level of success, if any.

On August 22, 2010, we filed our second IND with the FDA. The IND is being filed in connection with our proposed Phase I clinical trials for Chronic Spinal Cord injury. As of the date of this report, the FDA has not approved our IND.

##### Small Molecule Compounds

In December of 2010, the FDA approved our IND application to initiate a Phase I(a) safety trial to test NSI-189, our first small molecule compound, for the treatment of major depression.

##### General and Administrative Expenses

Our general and administrative ("G&A") expenses consist of the general costs, expenses and salaries for the operation and maintenance of our business. We anticipate that general and administrative expenses will increase as we progress from a pre-clinical to clinical phase of development. Additionally, commencing with our fiscal year 2011, we will no longer qualify as a smaller reporting company. As a result, we will incur additional costs and expenses with regard to our legal and financial compliance, including compliance with Section 404(b) of the Sarbanes-Oxley Act of 2002.

We anticipate that as a result of our outsource model, our G&A expenses related to our core business will increase at a slower rate than that of similar companies.

##### Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 of the Notes to Financial Statements describes the significant accounting policies used in the preparation of the financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: (1) we are required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on our financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our financial statements are fairly stated in accordance with accounting principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of operations. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our financial statements:

**Use of Estimates**—Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, our management has estimated the expected economic life and value of our licensed technology, our net operating loss for tax purposes and our stock option and warrant expenses related to compensation to employees and directors, consultants and investment banks. Actual results could differ from those estimates.

**Revenue Recognition**— In November 2010, we were awarded three federal grants, totaling \$733,438 through the Patient Protection and Affordable Care Act. We had no other revenues for the year ended December 31, 2010. We had no revenues for the year ended December 31, 2009. Our revenues, to date, have been derived primarily from providing treated samples for gene expression data from stem cell experiments and from providing services as a subcontractor under federal grant programs. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery of goods and services has occurred, the price is fixed and determinable, and collection is reasonably assured and will be affected by particular transactions we may enter into in the future. To date, we have had only grant revenue.

**Intangible and Long-Lived Assets**—We follow FASB guidelines related to the accounting for impairment of long-lived assets, which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. During the years ending December 31, 2010 and 2009, no impairment losses were recognized.

**Accounting for Warrants** – We have adopted FASB guidance related to determining whether an instrument or embedded feature is indexed to an entity's own stock. This guidance applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by the FASB, and to any freestanding financial instruments that are potentially settled in an entity's own common stock. As a result, certain of our warrants are considered to be derivatives and must be valued using various assumptions as they are recorded as liabilities.

**Research and Development Costs**—Research and development costs consist of expenditures for the research and development of patents and technology, which are not capitalizable and charged to operations when incurred. Our research and development costs consist mainly of payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants.

**Stock Based Compensation**—The Company accounts for equity instruments issued to non-employees in accordance with guidance issued by FASB. Accordingly, the estimated fair value of the equity instrument is recorded on the earlier of the performance commitment date or the date the services required are completed. We recognized \$5,240,882 and \$4,556,916 in stock-based compensation expense for the years ended December 31, 2010 and 2009, respectively.

## Results of Operations

### Revenue



In November 2010, we were awarded three federal grants, totaling \$733,438 through the Patient Protection and Affordable Care Act, which supports investments in qualifying therapeutic discovery projects. As of December 31, 2010, we have received \$575,406 of the grant. We received the balance of the funds during the first quarter of 2011. These are one-time grants. The Company did not have revenues for the twelve months ended December 31, 2009.

## Operating Expenses

Operating expenses totaled \$15,918,319 in 2010 and \$10,466,549 in 2009.

	Twelve Months Ended Dec. 31,		Change in	
	2010	2009	\$	2010 Versus 2009 %
Operating Expenses				
Research & development	\$ 9,163,810	\$ 5,346,904	\$3,816,906	71 %
General & administrative expense	6,623,758	5,030,981	1,592,777	32 %
Depreciation and amortization	130,751	88,664	42,087	47 %
Total expense	\$ 15,918,319	\$ 10,466,549	\$5,451,770	52 %

## Research and Development Expenses

Our R&D expenses consist primarily of contractors charges and personnel expenses associated with clinical trials and regulatory submissions; costs associated with preclinical activities such as proof of principle for new indications; toxicology studies; costs associated with cell processing and process development; facilities-related costs and supplies. Clinical trial expenses include payments to research organizations, contract manufacturers, clinical trial sites, laboratories for testing clinical samples and consultants.

Research and development expenses totaled \$9,163,810 in 2010, compared to \$5,346,904 in 2009. The increase of \$3,816,906, or 71%, from 2009 to 2010 was primarily attributable to the costs in 2010 of beginning clinical trials for ALS; completing the application to the FDA to begin clinical trials on our small molecule compound NS-189 for Depression and our stem cells for chronic spinal cord injury, and the development of proof of principle for new applications for our stem cells. Of the \$5,346,904 increase in R&D spending, \$3,619,570 was attributable to increased spending on external contractors.

## General and Administrative Expenses

General and administrative (G&A) expenses are primarily comprised of legal fees, salaries, benefits and other costs associated with, finance, legal, human resources, information technology, public relations, facilities and other external general and administrative services.

G&A expenses totaled \$6,623,758 in 2010, compared with \$5,030,981 in 2009. The increase of \$1,592,777, or 32%, from 2009 to 2010 was primarily attributable to increased litigation expenses and non cash stock based compensation. These two categories accounted for \$1,303,509 of the expenses increase.

## Depreciation and Amortization

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Depreciation and amortization expenses totaled \$130,751 in 2010, compared with \$88,664 in 2009. The increase of \$42,087 or 47% from 2009 to 2010 was primarily attributed to fixed asset and higher amortization of patents resulting from more patent additions over the past year.

Nonoperating (expense) income

Nonoperating (expense) income totaled \$(3,202,419) and \$102,186 for the twelve months ended December 31, 2010 and 2009, respectively. The nonoperating income or expense is discussed below.

	Twelve Months Ended December 31,	
	2010	2009
<b>Nonoperating income:</b>		
Interest income	\$ 59,277	\$ 19,614
Interest expense	(2,662 )	(776 )
Warrant issuance and modification expense	(1,906,800 )	-
(Loss) Gain on change in fair value adjustment of warrant obligations	(1,352,234 )	83,348
<b>Total nonoperating (expense) income</b>	<b>\$ (3,202,419 )</b>	<b>\$ 102,186</b>

Interest income totaled \$59,277 in 2010 compared to \$19,614 in 2009. The increase of \$39,663 for the twelve months ended December 31, 2010 compared to the comparable period in 2009 was attributable to higher cash balances, offset by reduced interest rates on short term savings.

Interest expense was \$2,662 in 2010 and \$776 in 2009. The increase in 2010 as compared to 2009 was attributable to the short term financing of some insurance costs.

The Company had a warrant modification expense of \$1,906,800 in 2010. Details of the transaction are in Note 2 to the financial statements.

On January 1, 2009 we reclassified the fair value of common stock purchase warrants, which have exercise price reset and anti-liquidation features, from equity to liability status, as if these warrants were treated as a derivative liability since their date of issue. We established a warrant liability of \$6.6 million to recognize the fair value of such warrants. In the twelve months ended December 31, 2009, the fair value of these common stock purchase warrants decreased to \$6,462,039. In the twelve months ended December 31, 2010, we converted, redeemed or modified more than 82% of the warrants that were outstanding at the beginning of the year which had price protection features. These modifications removed the price protection features. These modifications also reduced the Company's derivative liability to \$1,250,839 at December 31, 2010. An increase in the Company's stock price resulted in an expense for the period of \$1,352,234.

#### Liquidity and Capital Resources

Since our inception, we have financed our operations through the private placement of our securities, the exercise of investor warrants, and to a lesser degree from grants. Currently, our monthly cash burn rate is approximately \$900,000. In the event our second IND is accepted by the FDA and we elect to commence the trials, we expect our monthly cash burn rate will increase to approximately \$1.2 million. We estimate that we will have sufficient cash and cash equivalents to finance our current operations, pre-clinical and clinical work for at least 12 months from December 31, 2010, assuming we do not commence our second IND. We cannot assure you that we will be able to secure additional financing after such time. Several factors will affect our ability to raise additional funding, including, but not limited to, the volatility of our common shares and general market conditions. We anticipate that our available cash and expected income will be sufficient to finance our current activities for at least the next 12 months from December 31, 2010, although certain activities and related personnel may need to be reduced.

	Twelve Months Ended December 31,		Change in 2010		
	2010	2009	\$	Versus 2009	
				%	
Cash and cash equivalents	\$ 9,261,233	\$ 2,309,774	6,951,459	301	%
Net cash used in operating activities	\$ (9,981,244 )	\$ (5,144,820 )	4,836,424	94	%
Net cash used in investing activities	\$ (332,675 )	\$ (210,784 )	121,891	58	%
Net cash provided by financing activities	\$ 17,265,378	\$ 2,762,099	14,503,279	525	%

Total cash and cash equivalents was \$9,261,233 at December 31, 2010, compared with \$2,309,774 at December 31, 2009. The increase in our cash and cash equivalents of \$6,951,459 or 301%, from December 31, 2009 to December 31, 2010 was primarily attributable to the exercise of outstanding warrants and the registered offering of

our securities during the twelve months ending December 31, 2010.

#### Net Cash Used in Operating Activities

Operating activities required \$9,981,244 for the twelve months ended December 31, 2010 compared to \$5,144,820 for the same period in 2009. The increase of \$4,836,424 in cash consumption, or 94%, for the twelve months ended December 31, 2010 compared to the same period in 2009 was primarily attributable to the initiation of our clinical trials and increase in legal expenses.

#### Net Cash Used in Investing Activities

We used \$332,675 of cash in connection with investment activities for the twelve months ended December 31, 2010 and \$210,784 in 2009. The increase in our cash use of \$121,891, or 58%, for the twelve months ended December 31, 2010 compared to the same period in 2009 was primarily attributable to an increase in purchases of equipment during the year, as well as additional patent work.

### Net Cash Provided by Financing Activities

We raised \$17,265,378 and \$2,762,099 in net proceeds from the issuance of our securities during the twelve months ended December 31, 2010 and 2009, respectively.

Listed below are key financing transactions entered into by us during 2010:

- On January 29, 2010, we received gross proceeds of \$1,000,000 as a result of the exercise of 800,000 \$1.25 Series D warrant exercises. We issued the holder of the D warrants 400,000 additional warrants with an exercise price of \$1.85 in conjunction with the exercise. The new warrants have a life of one year.
  - In February of 2010, we called our \$1.25 Series B Warrants. Gross exercise proceeds totaled \$2,492,345.
- In March of 2010, holders of 2,699,400 Series C warrants exercised their option to purchase our common stock for 1.25 per share. Gross proceeds totaled \$3,374,250. We issued the holders of the exercised C Warrants 2,699,400 additional warrants with an exercise price of \$2.13 and a life of 5 years in conjunction with the exercise.
- The holder of 782,005 \$1.10 placement agent warrants exercised them in March of 2010. Gross consideration totaled \$860,205. We issued the holder of the exercised placement agent warrants 782,005 additional warrants with an exercise price of \$2.13 and a life of 5 years in conjunction with the exercise.
- In June of 2010, we sold approximately 3,571,436 units, through a registered direct offering. Each unit consists of one common share and 0.75 common share purchase warrant. Each unit was sold for \$2.80. Each warrant has an exercise price of \$3.25 per share, and is exercisable for a period of three years. As a result of the offering, we received gross proceeds of approximately \$10 million, and net proceeds of \$9,271,519.
- In the period January through December 2010, Series A warrant holders exercised an aggregate of 583,005 warrants. The exercise price of the Series A warrants is \$1.25 per share. As a result of the exercises, we received gross proceeds of \$728,756.
- In November 2010, we filed a prospectus supplement that relates to the issuance and sale of up to \$20,000,000 of our common stock, from time to time through a sales agreement with our sales agent Stifel, Nicolaus & Company, Incorporated. The prospectus is a part of a registration statement that we filed with the SEC on October 14, 2010, using a “shelf” registration process. Under this shelf registration process, we may offer to sell in one or more offerings up to a total dollar amount of \$50,000,000. In 2010, we had no sales of our common stock under this sales agreement with Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated will be paid compensation equal to 3.5% of the gross proceeds pursuant to the terms of the agreement.
- In the fourth quarter of 2010, holders of 402,822 “stand alone” warrants, with strike prices between \$0.50 and \$1.49, exercised them for total net proceeds of \$209,396.
- The Company incurred placement agent commissions for the exercise of Series A, B, and C warrants, which total \$671,094

### Call of Series B Warrants

During the first quarter of 2006, we issued an aggregate of 2,019,231 Series B warrants in connection with a private placement of our securities. The Series B warrants contained a call provision allowing us to redeem the warrants for

\$.01 per warrant share, upon 30 days notice, provided the following two conditions were met: (a) we receive approval of our IND, and (b) a registration statement covering the resale of the warrant shares shall be effective. As a result, Series B warrant holders exercised their respective warrants in the first quarter 2010, which resulted in us issuing 1,993,876 common shares and receiving gross proceeds in the amount of \$2,492,345.

#### Future Liquidity & Needs

We have incurred significant operating losses and negative cash flows since inception. We have not achieved profitability and may not be able to realize sufficient revenue to achieve or sustain profitability in the future. We do not expect to be profitable in the next several years, but rather expect to incur additional operating losses. We have limited liquidity and capital resources and must obtain significant additional capital resources in order to sustain our product development efforts, for acquisition of technologies and intellectual property rights, for preclinical and clinical testing of our anticipated products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, for general and administrative expenses and other working capital requirements. We rely on cash balances and the proceeds from the offering of our securities, exercise of outstanding warrants and grants to fund our operations.

We intend to pursue opportunities to obtain additional financing in the future through the sale of our securities and additional research grants. On October 8, 2010 we filed a shelf registration statement registering the sale of up to \$50 million of our securities. The registration statement was declared effective on October 14, 2010. We anticipate conducting financing in the future based on our shelf registration statement when and if financing opportunities arise.

The source, timing and availability of any future financing will depend principally upon market conditions, interest rates and, more specifically, on our progress in our exploratory, preclinical and future clinical development programs. Funding may not be available when needed — at all, or on terms acceptable to us. Lack of necessary funds may require us, among other things, to delay, scale back or eliminate some or all of our research and product development programs, planned clinical trials, and/or our capital expenditures or to license our potential products or technologies to third parties.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are not required to provide the information as to selected financial data as we are considered a smaller reporting company, as defined by Rule 229.10(f)(1).



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Neuralstem, Inc.

We have audited the accompanying balance sheets of Neuralstem, Inc. (the “Company”) as of December 31, 2010 and 2009, and the statements of operations, changes in stockholders’ equity (deficit) and cash flows for each of the years in the two-year period ended December 31, 2010. We also have audited the Company’s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neuralstem, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Neuralstem, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal

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Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*/s/ Stegman & Company*

Baltimore, Maryland

March 15, 2011

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## Balance Sheets

	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,261,233	\$ 2,309,774
Prepaid expenses	246,887	143,600
Other current assets	322,127	-
<b>Total current assets</b>	<b>9,830,247</b>	<b>2,453,374</b>
Property and equipment, net	200,084	196,755
Intangible assets, net	500,154	301,560
Other assets	60,875	55,716
<b>Total assets</b>	<b>\$ 10,591,360</b>	<b>\$ 3,007,405</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,032,931	\$ 791,607
Accrued bonus expense	453,240	769,215
Fair value of warrant obligations	1,250,839	-
<b>Total current liabilities</b>	<b>2,737,010</b>	<b>1,560,822</b>
<b>LONG-TERM LIABILITIES</b>		
Fair value of warrant obligations	-	6,462,039
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, 7,000,000 shares authorized, zero shares issued and outstanding	-	-
Common stock, \$0.01 par value; 150 million shares authorized, 46,897,529 and 35,743,831 shares outstanding in 2010 and 2009 respectively	468,975	357,438
Additional paid-in capital	93,339,506	62,193,937
Accumulated deficit	(85,954,131 )	(67,566,831 )
<b>Total stockholders' equity (deficit)</b>	<b>7,854,350</b>	<b>(5,015,456 )</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 10,591,360</b>	<b>\$ 3,007,405</b>

See notes to financial statements.



## Neuralstem, Inc.

## Statements of Operations

	Twelve Months Ended December 30,	
	2010	2009
Grant revenues	\$733,438	\$-
Operating expenses:		
Research and development costs	9,163,810	5,346,904
General and administrative expenses	6,623,758	5,030,981
Depreciation and amortization	130,751	88,664
	15,918,319	10,466,549
Operating loss	(15,184,881)	(10,466,549)
Nonoperating (expense) income:		
Interest income	59,277	19,614
Interest expense	(2,662 )	(776 )
Warrant issuance and modification expense	(1,906,800 )	-
(Loss) gain from change in fair value adjustment of warrant obligations	(1,352,234 )	83,348
Total nonoperating (expense) income	(3,202,419 )	102,186
Net loss attributable to common shareholders	\$(18,387,300)	\$(10,364,363)
Net loss per share - basic and diluted	\$(0.42 )	\$(0.30 )
Weighted average common shares outstanding - basic and diluted	43,466,074	34,280,882

See notes to financial statements.

## Neuralstem, Inc.

## Statements of Cash Flows

Twelve Months  
Ended December 31,  
2010                      2009

<b>Cash flows from operating activities:</b>		
Net loss	\$(18,387,300)	\$(10,364,363)
<b>Adjustments to reconcile net loss to cash used in operating activities:</b>		
Depreciation and amortization	130,752	88,664
Share based compensation expenses	5,240,882	4,556,916
Warrant issuance and modification expense	1,906,800	-
Loss/(gain) from change in fair value adjustment of warrant obligations	1,352,234	(83,348 )
<b>Changes in operating assets and liabilities:</b>		
Prepaid expenses	(43,287 )	(7,313 )
Other assets	(327,286 )	(2,744 )
Accounts payable and accrued expenses	213,570	243,657
Accrued bonus expenses	(67,609 )	423,711
Net cash used in operating activities	(9,981,244 )	(5,144,820 )
<b>Cash flows from investing activities:</b>		
Acquisition of intangible assets	(256,353 )	(122,406 )
Purchase of property and equipment	(76,322 )	(88,378 )
Net cash used in investing activities	(332,675 )	(210,784 )
<b>Cash flows From financing activities:</b>		
Proceeds from issuance of common stock from warrants exercised	7,993,859	-
Proceeds from issuance of common stock from private placement	9,271,519	2,762,099
Net cash provided by financing activities	17,265,378	2,762,099
Net increase (decrease)in cash and cash equivalents	6,951,459	(2,593,505 )
Cash and cash equivalents, beginning of period	2,309,774	4,903,279
Cash and cash equivalents, end of period	\$9,261,233	\$2,309,774
<b>Supplemental disclosure of cash flows information:</b>		
Cash paid for interest	\$2,662	\$776
Cash paid for income taxes	-	-
<b>Supplemental schedule of non cash investing and financing activities:</b>		
Extinguishment of warrant obligations through exercise, expiration and modification of common stock warrants	(6,563,180 )	-
Prepayment of services through common stock issuance	(240,000 )	-
Payment of contract services through common stock issuance	(50,000 )	-
Issuance of common stock from executive bonuses	(248,367 )	(372,033 )

See notes to financial statements.

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## Neuralstem, Inc.

## Statements of Changes In Shareholders' Equity (Deficit)

For the years ended December 31, 2010 and 2009

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at January 1, 2009	33,751,300	\$ 337,513	\$61,352,527	\$(57,486,795)	\$ 4,203,245
Cumulative effect of reclassification of warrants to liabilities			(7,044,118 )	284,327	(6,759,791 )
Balance, January 1, 2009, as adjusted	33,751,300	337,513	54,308,409	(57,202,468)	(2,556,546 )
Share based payment - employee compensation			4,556,916		4,556,916
Issuance of common stock through Private Placement (\$1.25 per share), net of financing costs of \$96,608.	800,000	8,000	895,392		903,392
Issuance of common stock from warrants exercised (\$1.25 per share), net of financing costs of \$31,300.	320,505	3,205	575,741		578,946
Issuance of common stock in settlement of outstanding 2008 bonus due to officers (225,475 shares at \$1.65 per share)	225,475	2,255	369,778		372,033
Issuance of common stock through Private Placement (\$2.32 per share), net of financing costs of \$5,833	646,551	6,465	1,487,701		1,494,166
Net loss				(10,364,363)	(10,364,363 )
Balance at December 31, 2009	35,743,831	357,438	62,193,937	(67,566,831)	(5,015,456 )
Share based payments			4,918,282		4,918,282
Issuance of common stock through Private Placement (\$2.80 per share), net of financing costs of \$728,501.	3,571,436	35,714	9,235,805		9,271,519
Issuance of common stock for prepaid consulting services.	140,000	1,400	238,600		240,000
Issuance of common stock for consulting services.	45,000	450	49,550		50,000
Issuance of common stock from warrants exercised (between \$0.50 and \$1.49 per share), net of issuance costs of \$671,094.	7,261,108	72,612	7,921,246		7,993,858
Warrant issuances and modifications			8,445,309		8,445,309
Extinguishment of fair value of warrant obligations from warrant expiration			24,671		24,671

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Issuance of restricted common stock in payment for Director's compensation (\$2.17 per share)	15,000	150	64,950		65,100
Issuance of restricted common stock in payment for 2009 executive bonuses (\$2.05 per share)	121,154	1,211	247,156		248,367
Net loss				(18,387,300)	(18,387,300 )
Balance at December 31, 2010	46,897,529	\$468,975	\$93,339,506	\$(85,954,131)	\$ 7,854,350

See notes to financial statements.

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## NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Business and Significant Accounting Policies

#### Nature of business:

Neuralstem, Inc. ("Company") is a biopharmaceutical company that is utilizing its proprietary human neural stem cell technology to create a comprehensive platform for the treatment of central nervous system diseases. The Company will commercialize this technology as a tool for use in the next generation of small-molecule drug discovery and to create cell therapy biotherapeutics to treat central nervous system diseases for which there are no cures. The Company was founded in 1997 and currently has laboratory and office space in Rockville, Maryland and a laboratory in San Diego California. The Company is also in the process of establishing laboratory facilities in China. At December 31, 2010, the investment in the Chinese operations was immaterial, so we did not present consolidated financial statements.

Inherent in the Company's business are various risks and uncertainties, including its limited operating history, the fact that Neuralstem's technologies are new and may not allow the Company or its customers to develop commercial products, regulatory requirements associated with drug development efforts and the intense competition in the genomics industry. The Company's success depends, in part, upon successfully raising additional capital, prospective product development efforts, the acceptance of the Company's solutions by the marketplace, and approval of the Company's solutions by various governmental agencies.

A summary of the Company's significant accounting policies is as follows:

#### Basis of Presentation

These financial statements have been prepared on the basis that the Company will continue as a going concern. Such assertion contemplates the significant losses recognized to date and the challenges we anticipate with respect to obtaining near-term funding under prevailing and forecasted economic conditions. The Company continues to be fully committed and has the capacity to continue to provide necessary capital and liquidity to fund continuing operations. The Company can contract cash outflows in the event attempts to raise capital are unsuccessful.

#### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ significantly from those estimates.

The Company's business currently does not generate cash. The Company's management does not know when this will change. The Company has expended and will continue to expend substantial funds in the research, development, clinical and pre-clinical testing of the Company's stem cell technologies and products with the goal of ultimately obtaining approval from the United States Food and Drug Administration ("FDA") to market and sell our products. We believe our long-term cash position is inadequate to fund all of the costs associated with the full range of testing and clinical trials required by the FDA for our core products. Based on our current operating levels, we believe that we have sufficient levels of cash and cash equivalents to fund operations into the first quarter of 2012.

No assurance can be given that (i) we will be able to expand our operations prior to FDA approval of our products, or (ii) that FDA approval will ever be granted for our products.

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### Cash and Cash Equivalents

For the Statements of Cash Flows, all highly liquid investments with maturity of three months or less are considered to be cash equivalents.

### Property and Equipment

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful lives ranging from three to eight years. Expenditures for maintenance and repairs are charged to operations as incurred.

### Recoverability of Long-Lived Assets and Identifiable Intangible Assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the assets, the assets are written down to their estimated fair values. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

### Fair Value of Financial Instruments

The fair values of financial instruments are estimated based on market rates based upon certain market assumptions and information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts payable and notes payable. Fair values were assumed to approximate carrying values for cash and payables due to the short-term nature or that they are payable on demand.

### Revenue Recognition

Our revenue recognition policies are in accordance with guidance issued by the SEC and Financial Accounting Standards Board (FASB). Historically, our revenue has been derived primarily from providing treated samples for gene expression data from stem cell experiments, from providing services under various grant programs and through the licensing of the use of our intellectual property. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery of goods and services has occurred, the price is fixed and determinable, and collection is reasonably assured.

### Research and Development

Research and development expenses consist primarily of costs associated with pre-clinical research, exclusively in the field of human neural stem cell therapies and regenerative medicine, related to our clinical cell therapy candidates. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. Research and development costs are expensed as they are incurred.

### Income taxes

Income taxes are provided for using the liability method of accounting in accordance with accepted accounting standards. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Temporary differences are the differences between the reported amounts of assets and liabilities and their

tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

#### Significant New Accounting Pronouncements

The following accounting pronouncements, if implemented, would have no effect on the financial statements of the company.

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In March 2010, the FASB issued revised accounting guidance for milestone revenue recognition. The new guidance allows for revenue recognition contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. It is effective on a prospective basis to milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Company will adopt this guidance beginning with agreements entered into on or after January 1, 2011. The Company does not expect the adoption of this standard to have a material impact on its financial position and results of operations.

#### Share Based Payments

We have granted stock-based compensation awards to employees and board members. Awards may consist of common stock, restricted stock units, warrants, or stock options. Our stock options and warrants have up to a ten year life. The stock options or warrants vest either upon the grant date or over varying periods of time. The stock options we grant provide for option exercise prices equal to or greater than the fair market value of the common stock at the date of the grant.

During the twelve months ended December 31, 2010, we granted 817,004 options, and in the similar period ended December 31, 2009, we granted 270,000 options. We recorded related compensation expenses as our options vest in accordance with guidance issued by the FASB related to share based payments. We recognized \$5,240,882 and \$4,556,916 in share-based compensation expense during the twelve months ended December 31, 2010 and 2009, respectively, from the vesting of stock options or warrants. Included in the expense for the twelve months ended December 31, 2010, is \$180,000 in expense related to the amortization of prepaid consulting expense paid with the issuance of \$240,000 in common stock. During the twelve month period ended December 31, 2010, there were 62,042 options that expired. There were no options that expired during the same period in 2009.

#### Note 2. Stockholders' (Deficit) Equity

##### Preferred and Common Stock

The authorized stock of the Company consists of 7,000,000 shares of blank check preferred stock with a par value of \$0.01 and 150,000,000 shares of common stock with par value of \$0.01. None of the blank check preferred shares have been issued.

- The Company completed a registered offering of 800,000 common shares at \$1.25 per share increasing equity by approximately \$1,000,000 in June 2009, less approximately \$97,000 in related placement and closing costs.
  - In September 2009 and December 2009, several warrant holders exercised 320,505 warrants at \$1.25 per warrant increasing equity by approximately \$401,000 less \$31,300 in related financing costs.
- In December 2009, the Company completed a private placement of 646,551 common shares at \$2.32 per share increasing equity by approximately \$1,500,000 less approximately \$6,000 in related costs.
- In June of 2010, we sold approximately 3,571,436 units, through a registered direct offering. Each unit consists of one common share and 0.75 common share purchase warrant. Each unit was sold for \$2.80. Each warrant has an exercise price of \$3.25 per share, and is exercisable for a period of three years. As a result of the offering, we received gross proceeds of approximately \$10 million.
- On July 8, 2010, the Company awarded 121,154 restricted shares of common stock to executives in payment of 2009 bonus awards. The shares were immediately vested, but may not be exercised for 5 years from the date of the award. The share price on the date of the award was \$2.57.
- In November 2010, we filed a prospectus supplement that relates to the issuance and sale of up to \$20,000,000 of our common stock, from time to time through a sales agreement with our sales agent Stifel, Nicolaus & Company,

Incorporated. The prospectus is a part of a registration statement that we filed with the SEC on October 14, 2010, using a “shelf” registration process. Under this shelf registration process, we may offer to sell in one or more offerings up to a total dollar amount of \$50,000,000. In 2010, we did not sell any of our common stock under this sales agreement with Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated will be paid compensation equal to 3.5% of the gross proceeds pursuant to the terms of the agreement.

### Stock Options

In 1997, the Company adopted a stock incentive plan (the Plan) to provide for the granting of stock awards, such as stock options and restricted common stock to employees, directors and other individuals as determined by the Board of Directors. The Company reserved 2.7 million shares of common stock for issuance under the Plan. At December 31, 2002, 816,084 options were outstanding with 216,040 options exercisable. During 2003, the Company reduced operations and terminated employment with all employees. The Plan was discontinued, terminating all options outstanding.

- On January 5, 2009 we granted a consultant 100,000 options to purchase common shares at a price of \$1.64. The options were issued as compensation for services rendered. The grant was made pursuant to our 2005 Stock Plan. The options are fully vested and have a cashless exercise provision. The options expire on January 5, 2016.
- On June 3, 2009 we granted a consultant 100,000 options to purchase common shares at a price of \$1.13. The options were issued as compensation for services rendered. The grant was made pursuant to our 2005 Stock Plan. The options vest as follows: 25,000 vested immediately; 25,000 vest at the six month anniversary; 25,000 vest at the twelve month anniversary; 25,000 vest at the eighteen month anniversary. The options expire on June 3, 2019.



- On July 2, 2009 we granted independent directors options to purchase an aggregate of 70,000 common shares at an exercise price of \$1.17. The grant was made pursuant to our 2007 Stock Plan and in compliance with our non-executive compensation arrangement. The grant consists of: (i) options to purchase 40,000 common shares as compensation for serving on the Board of Directors; (ii) options to purchase 10,000 common shares as compensation for serving on the Audit Committee; (iii) options to purchase 10,000 common shares as compensation for serving on the Compensation Committee; and (iv) options to purchase 10,000 common shares as compensation for serving on the Governance and Nominating Committee. These options vest quarterly over the grant year and expire 7 years from the date of grant.
- On January 15, 2010, we issued a consultant options to purchase an aggregate of 45,000 common shares at \$2.40 per share. The options vest as follows: (i) 25,000 upon grant; and (ii) 20,000 on December 31, 2010. The options have a term of 5 years
  - On January 15, 2010, we issued a consultant options to purchase an aggregate of 100,000 common shares at \$2.40 per share. The options are 100% vested upon grant and have a term of 7 years.

On July 12, 2010 we granted independent directors options to purchase an aggregate of 70,000 common shares at an exercise price of \$2.51. The grant was made pursuant to our 2007 Stock Plan and in compliance with our non-executive compensation arrangement. The grant consists of: (i) options to purchase 40,000 common shares as compensation for serving on the Board of Directors; (ii) options to purchase 10,000 common shares as compensation for serving on the Audit Committee; (iii) options to purchase 10,000 common shares as compensation for serving on the Compensation Committee; and (iv) options to purchase 10,000 common shares as compensation for serving on the Governance and Nominating Committee. These options vest quarterly over the grant year and expire 7 years from the date of grant.

- On November 11, 2010, we issued 602,004 options to company executives in payment of 2009 Long Term Incentive Awards. The grant was made pursuant to our 2010 Stock Plan. The options will have an exercise price of \$2.21 per share, vest quarterly over three years, and have a term of 10 years. The options cannot be sold for a period of five years after award.
- On November 15, 2010, we granted independent directors options to purchase an aggregate of 70,000 common shares at an exercise price of \$2.17 per share. The grant was made pursuant to our 2007 Stock Plan and in compliance with our non-executive compensation arrangement. The grant consists of: (i) options to purchase 40,000 common shares as compensation for serving on the Board of Directors; (ii) options to purchase 10,000 common shares as compensation for serving on the Audit Committee; (iii) options to purchase 10,000 common shares as compensation for serving on the Compensation Committee; and (iv) options to purchase 10,000 common shares as compensation for serving on the Governance and Nominating Committee. These options vest quarterly over the grant year and expire 7 years from the date of grant.

During the twelve months ended December 31, 2010, we granted 817,004 options. In the previous year we granted 270,000 options. We recorded related compensation expenses as our options vest in accordance with guidance issued by the FASB related to share based payments. We recognized \$5,240,882 and \$4,556,916 in share-based compensation expense during the twelve months ended December 31, 2010 and 2009, respectively, from the vesting of stock options or warrants.

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	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	8,800,659	\$2.55	8.2	\$-
Granted	270,000	1.33	8.2	\$-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at January 1, 2010	9,070,659	\$2.52	7.2	\$-
Granted	817,004	2.27	-	\$-
Exercised	-	-	-	-
Forfeited	(62,042 )	4.98	-	-
Outstanding at December 31, 2010	9,825,621	\$2.48	6.4	\$4,256,700
Exercisable at December 31, 2010	7,332,783	\$2.29	6.0	\$4,213,550
Range of Exercise Price		Outstanding Options	Expiration Dates	
\$0.50 - 2.00		3,070,000	2015 - 2019	
\$ 2.01 - 3.00		1,932,004	2013 - 2020	
\$3.01 - 4.00		4,818,275	2012 - 2018	
\$4.01 - 8.00		2,042	2011	
\$8.01 - higher		3,300	2011	
		9,825,621		

Share-based compensation included in the statements of operations for the twelve months ended December 31, 2010 and 2009 was as follows:

	Twelve Months Ended December 31,	
	2010	2009
Research and development costs	\$ 2,840,465	\$ 2,887,001
General and administrative expenses	2,400,417	1,669,915
Total	\$ 5,240,882	\$ 4,556,916

Restricted Stock Units

We have granted restricted stock units (RSUs) to certain employees that entitle the holders to receive shares of our common stock upon vesting of the RSUs, and subject to restrictions regarding the exercise of the RSUs. The fair

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value of restricted stock units granted are based upon the market price of the underlying common stock as if it were vested and issued on the date of grant.

A summary of our restricted stock unit activity for the twelve months ended December 31, 2010 is as follows:

	Number of RSUs	Weighted-average grant date fair value
Balance at January 1, 2010	-	\$ -
Granted	296,369	2.21
Vested and converted to common shares	-	-
Cancelled	-	-
Balance at December 31, 2010	296,369	\$ 2.21

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- On November 11, 2010, we granted 281,369 restricted stock units (RSUs) to company executives in payment of 2009 Long Term Incentive Awards. The RSUs vest quarterly over three years. Subject to certain exceptions, the stock cannot be sold for a period of five years after award.
- On November 15, 2010, we granted 15,000 RSUs to an independent director for compensation related to a change in the provisions of the independent director's amended remuneration plan. The RSUs vest immediately, but cannot be sold for a period of five years after the award.

#### Stock Warrants

During the years ended December 31, 2009 and 2010 the company issued the following warrants:

- On March 30, 2009 we granted a consultant warrants to purchase 96,000 shares at a price of \$1.25. The warrants shall be fully vested on 3/20/2010 and expire on 3/30/2015.
- On June 30, 2009 we completed a registered offering of 800,000 units at a price per share of \$1.25. As a result of this transaction we issued:
  - o 800,000 fully paid common shares.
  - o 800,000 Series D Warrants to purchase common stock at a price of \$1.25. The warrants expire on June 30, 2010.
  - o 800,000 Series E Warrants to purchase common stock at a price of \$1.25. The warrants expire on June 30, 2012.
  - o 800,000 Series F Warrants to purchase common stock at a price of \$1.25. The warrants expire on June 30, 2014.
  - o 40,000 placement agent warrants to purchase common stock at a price of \$1.5625. The warrants expire on June 30, 2014.
- On October 1, 2009 we granted a consultant warrants to purchase 100,000 shares at a price of \$1.49. The warrants are fully vested and have a cashless exercise provision. The warrants expire on 10/1/2016.
- On January 8, 2010, pursuant to a consulting agreement for investor relations and business development services, we issued Market Development Consulting Group, Inc.: (i) 140,000 common shares; and (ii) a common stock purchase warrant entitling the holder to purchase 400,000 shares of common stock at \$1.70 per share. The warrant is exercisable immediately, shall expire on December 31, 2019, and is freely assignable in whole or in part. We also agreed to register the shares underlying the warrant for resale.
- On January 29, 2010, as an inducement to exercise 800,000 Series D Warrants, we issued Vicis Capital Master Fund a replacement warrant. As a result of the exercise, we received gross proceeds in the amount of \$1,000,000. The replacement warrant entitles the holder to purchase 400,000 common shares at price of \$1.85 per share. The warrant has a term of 1 year.
- In March of 2010, in connection with the exercise of 2,699,400 Series C Warrants, we issued the prior warrant holders an aggregate of 2,699,400 replacement warrants. As a result of the exercise, we received gross proceeds in the amount of \$3,374,250. The replacement warrant is substantially the same as the prior Series C warrants except that: (i) the exercise price is \$2.13; (ii) the replacement warrants expire 5 years from the date they were issued; (iii) is callable by the company in the event our common stock trades above \$5.00 and certain other conditions are met, and (iv) the replacement warrants do not provide for any anti-dilution rights.
- In March of 2010, in connection with the exercise of 782,005 placement agent warrants, we issued T.R. Winston & Company, LLC, a replacement warrant to purchase 782,005. As a result of the exercise, we received gross proceeds in the amount of \$860,205. The replacement warrant is substantially the same as the prior warrants issued to our Series C Warrant holders except that: (i) the exercise price is \$2.13; (ii) the replacement warrants expire 5 years from the date they were issued; and (iii) the replacement warrants do not provide for any anti-dilution rights.
- In March of 2010, we amended 706,752 placement agent warrants held by TR Winston & Company, LLC. Pursuant to the amendment, we agreed to extend the expiration date of the placement agent warrants from March 15, 2012 to March 15, 2014 in exchange for the removal of the anti-dilution provisions from said warrants. We did not receive any additional consideration in connection with the amendment.
- On May 14, 2010, as consideration for amending a consulting agreement for investor relations and business development services, we issued Market Development Consulting Group, Inc. a common stock purchase warrant

entitling the holder to purchase 200,000 shares of common stock at \$3.17 per share. The warrant is exercisable immediately, shall expire on May 14, 2020, and is freely assignable in whole or in part. The warrant is substantially similar to the consultant warrant issued on January 8, 2010.

- In June of 2010, we issued an aggregate 2,678,577 warrants in connection with a registered direct offering. Each warrant has an exercise price of \$3.25 per share, and is exercisable for a period of three years.
- In June of 2010, we issued Noble International Investment, Inc., D/B/A Noble Financial Capital Markets a warrant to purchase 250,001 common shares. The warrant was issued as compensation for placement agent services which Noble International Investments, Inc., performed in connection with our \$10 million registered direct offering of units. The warrant is substantially the same as the investor warrant issued in the offering and has: (i) an exercise price of \$3.25, and (ii) a term of three years.

A summary of warrant activity follows:

	Number of Warrants	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	13,079,762	\$ 2.27	2.0	-
Granted	2,536,000	1.25		
Exercised	(320,505 )	1.25		
Forfeited	-	-		
Outstanding at December 31, 2009	15,295,257	1.82	2.0	-
Granted	7,509,983	2.55	3.9	-
Exercised	(7,323,191 )	1.20	-	-
Forfeited	(25,355 )	1.25	-	-
Outstanding at December 31, 2010	15,456,694	\$ 2.47	3.4	\$ 2,190,458
Exercisable at December 31, 2010	13,456,694	\$ 2.24	2.6	\$ 2,190,458

Effective January 1, 2009 we adopted the provisions of recent accounting guidance, described below. As a result of adopting this guidance, 8,547,762 of our issued and outstanding common stock purchase warrants previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment. These warrants have the following characteristics:

	Strike Price	Date of Issue	Date of Expiration	Warrants Outstanding
Series A & B Warrants	\$1.25	February-06	February-11	4,359,605
Series A & B Warrants, Placement Agent	\$1.10	February-06	February-11	782,005
Series C Warrants	\$1.25	October-07	October-12	1,227,000
Series C Warrants, Placement Agent	\$1.25	March-07	March-12	294,480
Series C Warrants, anti-dilution awards	\$1.25	December-08	October-12	1,472,400
Series C Warrants, Placement Agent, anti-dilution awards	\$1.25	December-08	March-12	412,272
Total warrants no longer accounted for as equity				8,547,762

FASB ASC Subtopic 815-40, Contracts in Entity's Own Equity provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions.

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Effective January 1, 2009 we reclassified the fair value of the common stock purchase warrants, which were outstanding at January 1, 2009, and which have exercise price reset and anti-liquidation features, from equity to liability status as if these warrants were treated as a derivative liability since their date of issue. On January 1, 2009, we reduced additional paid-in capital by \$6.9 million and decreased the beginning retained deficit by \$.3 million as a cumulative effect to establish a long-term warrant liability of \$6.6 million to recognize the fair value of such warrants. In the twelve months ended December 31, 2010, 7,348,546 of the common stock purchase warrants were exercised or forfeited. The fair value of the remaining warrants increased, due to a higher stock price, resulting in a \$1,352,234 expense for the twelve months ended December 31, 2010.

These common stock purchase warrants were initially issued in connection with placement of the Company's common stock. The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants do not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire. These common stock purchase warrants do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions:

	December 31, 2010		December 31, 2009	
Annual dividend yield	0		0	
Expected life (months)	1.75		7.2-24	
Risk free interest rate	0.14	%	.20%-1.14	%
Expected volatility	68.80	%	62%-98	%

Expected volatility is based primarily on historical volatility. Historical volatility was computed using daily pricing observations for a group of similar companies for recent periods that correspond to the expected life of the warrants. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is estimated by management based on the remaining term of the warrants. The risk-free interest rate is based on the rate for U.S. Treasury securities over the expected life.

#### Warrant Modification Expense

In February 2010, we extended the lives of warrants for 706,752 shares of common stock with a strike price of \$1.25 for two years. The warrants had been issued earlier in exchange for extinguishment of debt. The warrants were due to expire in March 2012. As a result of the term change, we recorded a Warrant Modification Expense charge of \$171,531 for the twelve months ended December 31, 2010. In addition, as a fulfillment of agreements with certain vendors, 3,881,005 warrants were reissued in January and March 2010 to replace warrants that had been exercised during the period. As a result of the reissue of these warrants, the Company recognized a Warrant Modification Expense charge of \$1,735,269. The total expense for the twelve months ended December 31, 2010 was \$1,906,800.

#### Valuation and Expense Information for Share-based Compensation

The following table summarizes the stock-based compensation expense related to share-based payment awards under this accounting guidance for the year ended December 31, 2010 and 2009, which was allocated as follows:

Twelve Months Ended December 31,



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	2010	2009
Research and development costs	\$ 2,840,465	\$ 2,887,001
General and administrative expenses	2,400,417	1,669,915
Total	\$ 5,240,882	\$ 4,556,916

The fair value of options granted in fiscal years 2010 and 2009 reported above have been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

	2010	2009
Dividend yield	0 %	0 %
Expected volatility range	46% to 87 %	46% to 85 %
Risk-free interest rate range	0.61 to 4.96 %	0.74 to 4.96 %
Expected life	2 to 6.5 yrs	2 to 6.5 yrs

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We have not used the historical volatility of our stock since we began public trading in December 2006 and consequently do not have sufficient trading history to forecast volatility for the expected life of our options. Instead to estimate expected volatility we use a market capitalization weighted average of the historical trading of other companies in our industry. The expected term of options is two years beyond the vesting date. This is an estimate based on management's judgment and corresponds with its experience with equity warrants. The risk-free interest rate is based on the Daily Treasury Yield Curve Rates as published by the US Treasury for the expected term in effect on the date of grant. We grant options under our equity plans to employees, non-employee directors, and consultants for whom the vesting period is between immediate and 4.5 years.

As stock-based compensation expense recognized in the statements of operations for the years ended December 31, 2010 and December 31, 2009 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures but at a minimum, reflects the grant-date fair value of those awards that actually vested in the period. Accounting guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on management judgment.

Based on the Black Scholes option-pricing model, the weighted average estimated fair value of employee stock options granted during the year ended December 31, 2010 is \$2.27 per share. The weighted average estimated fair value of employee stock options granted during the year ended December 31, 2009, was \$1.33.

#### Loss per Common Share

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share adjusts basic loss per share for the potentially dilutive effects of shares issuable under our stock option plan, using the treasury stock method. All of the Company's restricted stock units, options and warrants, which are common stock equivalents, have been excluded from the calculation of diluted loss per share, as their effect would have been anti-dilutive.

	For The Twelve Months Ended December 31,	
	2010	2009
<b>Basic:</b>		
Net loss attributable to common shareholders	\$(18,387,300)	\$(10,364,363)
Weighted average common shares outstanding	43,466,074	34,280,882
Basic and diluted loss per common share	\$(0.42 )	\$(0.30 )

#### Note 3. Property and Equipment

The major classes of property and equipment consist of the following:

	2010	2009
Furniture and Fixtures	\$15,990	\$14,400
Computers and office equipment	54,008	47,109
Lab equipment	348,411	280,579
	\$418,409	\$342,088
Less accumulated depreciation	(218,325 )	(145,333 )
Property and equipment, net	\$200,084	\$196,755

Depreciation expense for the years ended December 31, 2010 and 2009 was \$72,993 and \$55,554, respectively.

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## Note 4. Intangible Assets

The Company holds patents related to its stem cell research. Patent filing costs were capitalized and are being amortized over the life of the patents. The company has determined that the intangibles purchased have a seventeen year useful life. The Company follows FASB guidelines in determining if there is any impairment. The Company determined that no impairment to the assigned values had occurred. The Company's intangible assets and accumulated amortization consisted of the following at December 31, 2010 and 2009:

	2010		2009	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Patent filing fees	\$621,762	\$ (121,608 )	\$365,409	\$ (63,849 )

Amortization expense for the years ended December 31, 2010 and 2009 was \$57,759 and \$33,110, respectively.

## Note 5. Income Taxes

We did not provide any current or deferred U.S. federal income tax provision or benefit for any of the periods presented because we have experienced operating losses since inception. We provided a full valuation allowance on the net deferred tax asset, consisting of net operating loss carryforwards, because management has determined that it is more likely than not that we will not earn income sufficient to realize the deferred tax assets during the carryforward period.

The tax effects of significant temporary differences representing deferred tax assets as of December 31, 2010 and 2009:

	2010		2009	
Net operating loss carry-forwards	\$	21,789,496	\$	17,842,957
Valuation allowance		(21,789,496 )		(17,842,957 )
Net deferred tax asset	\$	-	\$	-

At December 31, 2010, the Company has net operating loss carryforwards of approximately \$54.5 million. The Company has also reported certain other tax credits, the benefit of which has been deferred. The Company's NOL carryforwards and credits will begin to expire in the tax year 2012. The timing and manner in which these net operating loss carryforwards and credits may be utilized in any year by the Company will be limited to the Company's ability to generate future earnings and also may be limited by certain provision of the U.S. tax code.

## Note 6. Commitments and Contingencies

We currently lease two facilities. Our executive offices and primary research facilities are located at 9700 Great Seneca Highway, Rockville MD, 20850. We lease these facilities consisting of approximately 3,200 square feet for \$12,130 per month. The term of our lease expires on January 31, 2012

We entered into a lease in September 2009 consisting of approximately 2,375 square feet of research space in San Diego, California, at a monthly lease rate of \$4,806. The lease terminates in August of 2011.

The Company recognized \$165,676 and \$217,386 in rent expense for the years ended December 31, 2010 and December 31, 2009, respectively.

The Company is currently obligated under two written employment agreements with Messrs Garr and Johe. Both agreements terminate on October 31, 2012. Pursuant to Mr. Garr's agreement, he receives a salary of \$407,000 per annum and in the event of termination prior to the completion of the agreement, the Company would pay Mr. Garr one million dollars (\$1,000,000). Pursuant to Mr. Johe's agreement, he receives \$422,100 per annum and in the event of termination prior to the completion of the agreement, Company would pay Mr. Johe one million dollars (\$1,000,000).

In addition, pursuant to both the agreements any and all stock options, warrants, restricted stock or restricted stock units granted would accelerate and vest immediately in the event the agreements are terminated early.

In May of 2008, the Company filed a complaint against StemCells Inc., alleging that U.S. Patent No. 7,361,505 (the "505 patent"), allegedly exclusively licensed to StemCells, Inc., is invalid, not infringed and unenforceable. On the same day, StemCells, Inc. filed a complaint alleging that we had infringed, contributed to the infringement of, and or induced the infringement of two patents owned by or exclusively licensed to StemCells relating to stem cell culture compositions. At present, the litigation is in its initial stages and any likely outcome is difficult to predict.

## Note 7. Fair Value

Fair value is defined as the price at which an asset could be exchanged or a liability transferred (an exit price) in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied.

Financial assets recorded at fair value in the accompanying financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, as defined by the new guidance related to fair value measurements and disclosures, and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair valued assets we hold that are generally included in this category are money market securities where fair value is based on publicly quoted prices and included in cash equivalents.

Level 2 — Inputs are other than quoted prices included in Level 1, which are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument's anticipated life.

We carry no investments classified as Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Our warranty obligations are considered Level 3.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair value measurements at December 31, 2010 using				
		Quoted prices in	Significant	Significant
	Dec. 31, 2010	active markets for	other	Unobservable
		identical assets	observable	inputs (Level
		(Level 1)	inputs (Level	3)
			2)	
<b>Assets:</b>				
Cash and cash equivalents	\$ 9,261,233	\$ 9,261,233	\$ -	\$ -
<b>Liabilities:</b>				
Fair value of warrant obligations	1,250,839	-	-	1,250,839

Fair value measurements at December 31, 2009 using

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	Dec. 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,309,774	\$ 2,309,774	\$ -	\$ -
<b>Liabilities:</b>				
Fair value of warrant obligations	6,462,039	-	-	6,462,039

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	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009
Fair value of warrant obligations at beginning of period	\$ 6,462,039	\$ -
Cumulative effect of reclassification of warrants to liabilities at beginning of period	-	6,759,791
Extinguishment through warrant exercises and modifications	(6,563,180 )	(214,404 )
Extinguishment through warrant expirations	(254 )	-
Net loss (gain) for change in fair value included in the statement of operations for period	1,352,234	(83,348 )
Fair value of warrant obligations at end of period	\$ 1,250,839	\$ 6,462,039

The fair value of the warrant obligations was determined using the Black Scholes option pricing model with inputs which are described in Note 2.

#### Note 8. Change in Accounting Principle: Recharacterization of Warrants

In June 2008, the FASB ratified the consensus reached on whether an instrument or embedded feature is indexed to an entity's own stock. FASB guidance clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception.

We adopted the FASB guidance as of January 1, 2009. As is discussed in Note 1 and 2, as of that date we had 8,547,762 warrants which were reassessed under the new guidance. Because of certain price adjustment provisions contained in the warrants, they were no longer deemed to be indexed to our stock and therefore, no longer meet the scope exception. Hence, these warrants were determined to be derivatives and were reclassified from equity to liabilities. As a result of this change in accounting principle, on January 1, 2009 we recorded these liabilities at their value of \$6,759,791. At that date we also recorded a cumulative catch up adjustment of \$284,327 to reduce the accumulated deficit and a \$7,044,118 decrease to additional paid-in capital. The adjustment to the accumulated deficit (the cumulative income effect of the accounting change) was calculated for the decrease in the fair value of the warrants from the date of their issuance through January 1, 2009.

These warrant liabilities will be marked to fair value from January 1, 2009 going forward resulting in the recognition of gain or loss in our statement of operations for changes in their fair value. In the twelve months ended December 31, 2010, we recognized a loss from the change in the fair value of these warrant obligations of \$1,352,234.

In the first quarter of 2010, the Company converted, redeemed or modified more than 70% of the warrants outstanding at the beginning of the year which had price protection features. These changes removed the price protection features. In 2009 we were not able to account for these as equity, and so treated them as long term liabilities. These changes significantly reduced the Company's derivative liability from \$6,462,039 at December 31, 2009 to \$1,250,839 at December 31, 2010.

#### Note 9. Subsequent Events



In the first quarter of 2011, the Company redeemed or cancelled the remainder of the outstanding A warrants at the beginning of the year that had price protection features. The Company reduced its derivative liability to zero for the first quarter. Series A warrant holders redeemed 1,468,775 warrants at \$1.25 for a total of \$1,826,346 in additional financing.

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ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
9. FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of our CEO and Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

Management of Neuralstem, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact

that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as a guide. The Company sought in its evaluation to determine whether there were any "significant deficiencies" or "material weakness" in its internal control over financial reporting, or whether it had identified any acts of fraud involving management or other employees. Based on the above evaluation, the Company's chief executive officer and chief financial officer have concluded that as of December 31, 2010, the Company's internal control over financial reporting were effective.

Stegman & Company has issued an attestation report on our internal control over financial reporting, which is included in the Report of Independent Registered Public Accounting Firm in Item 8.

#### Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 9B. Other Information

None

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

##### Directors

Our board of directors consists of four members. Our bylaws provide for a staggered board consisting of 3 groups. The following sets forth our current directors, information concerning their ages and background, and information concerning their respective groups.

##### Class I Directors

The following directors are Class I directors and will serve until our 2012 annual meeting:

Name	Principal Occupation	Age	Director Since
Scott Ogilvie(1)		56	2007

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CEO and President of Gulf Enterprises  
International, Ltd.  
Director of Neuralstem, Inc.

(1) Mr. Ogilvie qualifies as an independent director within the meaning of the NYSE Amex rules and regulations.

Class II Directors

The following directors are Class II directors and will serve until our 2013 annual meeting:

Name	Principal Occupation	Age	Director Since
William Oldaker(1)	Partner at Oldaker Group LLC Director of Neuralstem, Inc.	69	2007
Stanley Westreich(1)	Investor	74	2/2011

(1) Messrs. Oldaker and Westreich qualify as independent directors within the meaning of the NYSE Amex rules and regulations.

## Class III Directors

The following directors are Class III directors and will serve until our 2011 annual meeting:

Name	Principal Occupation	Age	Director Since
I. Richard Garr	Chief Executive Officer, President, General Counsel and Director of Neuralstem, Inc.	58	1996
Karl Johe, Ph.D	Chief Scientific Officer, Chairman of the Board and Director of Neuralstem, Inc.	50	1996

Mr. I. Richard Garr, JD, age 58, has been a director and our Chief Executive Officer since 1996. Mr. Garr was previously an attorney with Beli, Weil & Jacobs, the B&G Companies, and Circle Management Companies. Mr. Garr is a graduate of Drew University (1976) and the Columbus School of Law, The Catholic University of America (1979). Additionally, he was a founder and current Board member of the First Star Foundation, a children's charity focused on abused children's issues; a founder of The Starlight Foundation Mid Atlantic chapter, which focuses on helping seriously ill children; and is a past Honorary Chairman of the Brain Tumor Society. In evaluating Mr. Garr's specific experience, qualifications, attributes and skills in connection with his appointment to our board, we took into account his broad experience in Neural Stem Cells. He is among the longest serving executives in the field.

Mr. Karl Johe, Ph.D., age 50, has been a director, Chairman of the Board and our Chief Scientific Officer since 1996. Dr. Johe has over 15 years of research and laboratory experience. Dr. Johe is the sole inventor of Neuralstem's granted stem cell patents and is responsible for the strategic planning and development of our therapeutic products. Dr. Johe received his Bachelor of Arts Degree in Chemistry and a Master's Degree from the University of Kansas. Dr. Johe received his doctorate from the Albert Einstein College of Medicine of Yeshiva University. From 1993 to January 1997, Dr. Johe served as a Staff Scientist at the Laboratory of Molecular Biology of the National Institute of Neurological Disease and Stroke in Bethesda, Maryland. While holding this position, Dr. Johe conducted research on the isolation of neural stem cells, the elucidation of mechanisms directing cell type specification of central nervous system stem cells and the establishment of an in vitro model of mammalian neurogenesis. In evaluating Dr. Johe's specific experience, qualifications, attributes and skills in connection with his appointment to our board, we took into account his extensive experience in international science and business communities. Mr. Johe is also multilingual.

Mr. William Oldaker, age 69, has served on our board of directors since April 12, 2007. Mr. Oldaker is a founder and partner in the Washington, D.C. law firm of Oldaker Group LLC. Prior to founding the firm in 1993, Mr. Oldaker was a partner in the Washington office of the law firm of Manatt, Phelps and Phillips from 1987 to 1993. In 2004, Mr. Oldaker was a founder of Washington First Bank in Washington, D.C. and serves as a member of the board of directors. He previously served as a director of Century National Bank, from 1982 until its acquisition in 2001. Mr. Oldaker was appointed by President Clinton to serve as a commissioner on the National Bioethics Advisory Commission, a post he held until 2001. He is a member of the Colorado, D.C. and Iowa Bar Associations, the Bar Association for the Court of Appeals, D.C., and the Bar of the United States Supreme Court. He is also a partner in The National Group, a consulting firm. In evaluating Mr. Oldaker's specific experience, qualifications, attributes and skills in connection with his appointment to our board, we took into account his extensive experience with managing and developing federal government regulations and expertise in the legislative process. He also was a founding member, and has served on the board of directors of a bank for almost thirty years.

Mr. Scott V. Ogilvie, age 56, has served on our board of directors since April 12, 2007. Mr. Ogilvie is President of AFIN International, Inc., a private equity/business advisory firm, which he founded in 2006. Prior to December 31, 2009, he was CEO of Gulf Enterprises International, Ltd, ("Gulf") a company that brings strategic partners, expertise

and investment capital to the Middle East and North Africa. He held this position since August of 2006. Mr. Ogilvie previously served as Chief Operating Officer of CIC Group, Inc., an investment manager, a position he held from 2001 to 2007. He began his career as a corporate and securities lawyer with Hill, Farrer & Burrill, and has extensive public and private corporate board experience in finance, real estate, and technology companies. During the past 5 years, Mr. Ogilvie has served on the board of directors of Neuralstem, Inc. (NYSE AMEX:CUR), Innovative Card Technologies, Inc. (OTCBB:INVC) and Preferred Voice Inc, (OTCBB:PRFV) and GenSpera, Inc. (OTCBB: GNSZ). In evaluating Mr. Ogilvie's specific experience, qualifications, attributes and skills in connection with his appointment to our board, we took into account his prior work in both public and private organizations regarding corporate finance, securities and compliance and international business development.

Mr. Stanley Westreich, age 74, joined our board of director on February 15, 2011. Mr. Westreich is the manager of Westreich Services, LLC, a private investment and advisory firm which he founded in 2005. Prior to founding Westreich Services, LLC, Mr. Westreich was President of Westfield Realty, Inc., a real estate development and construction company, from 1965 to 2005. From July 26, 1994 to May 2010 he served as a director of Capital One Financial Corporation and also served as a director of Capital One Bank (USA), National Association. He served as a member of the Capital One Financial Corporation Compensation Committee from March 1995 through February 2010 and was its Chairman from March 1995 through April 2005. He has also served on the Capital One Financial Corporation Finance and Trust Oversight Committee from April 2004 to May of 2010. In evaluating Mr. Westreich's specific experience, qualifications, attributes and skills in connection with his appointment to our board, we took into account his prior experience on the board of Capital One Financial and its related committees as well as his track record at Westreich Realty, Inc..

#### Executive Officers and Significant Employees

The following sets forth our current executive officers and information concerning their age and background:

Name	Position	Age	Position Since
I. Richard Garr	Chief Executive Officer, President, General Counsel	58	1996
Karl Johe, Ph.D.	Chief Scientific Officer	50	1996
John Conron	Chief Financial Officer	60	4/1/2007

I. Richard Garr – See Bio in the “Directors” section

Karl Johe, Ph.D. – See Bio in the “Directors” section

Mr. John Conron has served as our Chief Financial Officer since April 1, 2007. Mr. Conron, a Certified Public Accountant, has over 30 years of experience in the field of corporate finance. Since 2003, Mr. Conron has been consulting early stage companies by providing critical outsource CFO functions such as implementation of accounting systems, creation and monitoring of internal controls, Sarbanes Oxley compliance, audit preparation, financial modeling and strategic planning. Prior to his work as a consultant, Mr. Conron worked for Cyberstar, Inc., a wholly owned subsidiary of Loral Space & Communications, Inc., where he held the position of CFO from 2000 to 2003. Mr. Conron joined Cyberstar from Transworld Telecommunications, Inc., a Qualcomm spin-off which offered telecommunication services in Russia, where he served as CFO. Mr. Conron also served as CFO and on the board of directors of Mercury Communications in London. Mercury was the European subsidiary of Cable & Wireless.

#### Family Relationships

There are no family relationships between any director, executive officer, or person nominated or chosen by the registrant to become a director or executive officer.

#### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers, directors, and stockholders owning more than ten percent of our common stock, to file reports of ownership and changes in ownership with the SEC and to furnish us with copies of such reports. Based solely on our review of Forms 3, 4 and 5, the following table provides information regarding any of the reports which were filed late.



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Name of Reporting Person	Type of Report and Number Filed Late	No. of Transactions Reported Late
William Oldaker	Form 5 – Annual Statement of Changes in Beneficial Ownership of Securities (1 Report)	5
William Oldaker	Form 4– Statement of Change in Beneficial Ownership (1Report)	2
Scott Ogilvie	Form 4– Statement of Change in Beneficial Ownership (1 Report)	2
John Conron	Form 4– Statement of Change in Beneficial Ownership (1Report)	2
Richard Garr	Form 4– Statement of Change in Beneficial Ownership (1Report)	2
Karl Johe	Form 4– Statement of Change in Beneficial Ownership (1Report)	2

Code of Ethics

We have adopted a "Code of Ethics" that applies to our officer, directors and employees. We have also adopted a "Finance Code of Professional Conduct" that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and any persons who participate in our financial reporting process. We have also adopted "Corporate Governance Guidelines" which provide guidelines with regard to our Board of Directors, Executive Officers as well as compensation. A copy of our codes can be viewed on our website at [www.neuralstem.com](http://www.neuralstem.com).

The codes incorporate our guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The codes also incorporate our expectations of our officers, directors and employees that enable us to provide accurate and timely disclosure in our filings with the SEC and other public communications. In addition, the codes incorporate guidelines pertaining to topics such as complying with applicable laws, rules, and regulations; reporting violations; and maintaining accountability for adherence to the codes.

We intend to disclose future amendments to certain provisions of our codes, or waivers of such provisions on our web site within four business days following the date of such amendment or waiver.

#### Committees

We have established 3 corporate governance committees comprising of the: (i) Audit Committee; (ii) Compensation Committee; and (iii) Nomination and Corporate Governance Committee. The committee membership and the function of each of the committees are described below.

	Audit Committee	Nomination and Corporate Governance Committee	Compensation Committee
Director	Chair	Member	Member
William Oldaker	Member	Chair	Chair
Scott Ogilvie	Member	—	Member
Stanley Westreich			

#### Audit Committee

We have a designated audit committee in accordance with section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs Ogilvie, Oldaker and Westreich. The Audit Committee assists our board in fulfilling its responsibility for the oversight of the quality and integrity of our accounting, auditing, and reporting practices, and such other duties as directed by the board. The committee's purpose is to oversee our accounting and financial reporting processes, the audits of our financial statements, the qualifications of our public accounting firm engaged by us as our independent auditor to prepare or issue an audit report on our financial statements, and the performance of our internal audit function and independent auditor. The committee reviews and assesses the qualitative aspects of financial reporting to shareholders, our processes to manage business and financial risk, and compliance with significant applicable legal, ethical, and regulatory requirements. The committee is directly responsible for the appointment (subject to shareholder ratification), compensation, retention, and oversight of our independent auditor.

Our board of directors has determined that Messrs Ogilvie, Oldaker and Westreich are “audit committee financial expert” within the meaning of SEC rules. An audit committee financial expert is a person who can demonstrate the following attributes: (1) an understanding of generally accepted accounting principles and financial statements; (2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company’s financial statements, or experience actively supervising one or more persons engaged in such activities; (4) an understanding of internal controls and procedures for financial reporting; and (5) an understanding of audit committee functions.

#### Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee reviews and evaluates the effectiveness of our executive development and succession planning processes, as well as provides active leadership and oversight of these processes, and oversight of our corporate governance policies. The Nomination and Corporate Governance Committee also evaluates and recommends nominees for membership on our board of directors and its committees. Messrs Ogilvie and Oldaker are the members of the Nomination Committee.

There has been no material change to the procedures by which security holders may recommend nominees to our board of directors since we last provided such disclosure in our definitive proxy statement filed with the SEC in connection with our 2008 annual meeting. We did however adopt a formal "Corporate Governance Guidelines" which provide guidelines with regard to our Board of Directors, Committees of the Board, Executive Officers as well as compensation.

Although the Nomination and Corporate Governance Committee will take into regard diversity in the identification of Director nominees, we do not have a formal policy with regard to the consideration of diversity in identifying Director nominees. The Nominating and Corporate Governance Committee strives to nominate Directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills, and expertise to oversee our businesses.

## Compensation Committee

The Compensation Committee's role is to discharge our board's responsibilities relating to compensation of our executives and to oversee and advise the board of directors on the adoption of policies that govern our compensation and benefit programs. Messrs Ogilvie, Oldaker and Westreich are the members of the Compensation Committee.

## Leadership Structure

The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board. At present, the positions of Chairman and Chief Executive Officer are held by different individuals. This structure makes the best use of the Chief Executive Officer's and Chairman's respective knowledge of the Company and its industry, as well as fostering greater communication between the Company's management and the Board.

## Risk Oversight

The Company has a risk management program overseen by the Chief Executive Officer. Material risks are identified and prioritized by management, and each prioritized risk is referred to a Board Committee or the full Board for oversight. For example, strategic risks are referred to the full Board while financial risks are referred to the Audit Committees. The Board regularly reviews information regarding the Company's liquidity and operations, as well as the risks associated with each, and annually reviews the Company's risk management program as a whole. Also, the Compensation Committee periodically reviews the most important risks to the Company to ensure that compensation programs do not encourage excessive risk-taking.

## Independent Directors

Our board of directors has determined that Messrs Ogilvie, Oldaker and Westreich are each "independent" as that term is defined by the NYSE Amex.

## ITEM 11. EXECUTIVE COMPENSATION

### Executive Compensation

#### Summary Compensation

The following table sets forth information for our most recently completed fiscal year concerning the compensation of (i) the Principal Executive Officer (PEO) and (ii) all other executive officers of Neuralstem, Inc. who earned over \$100,000 in salary and bonus during the last most recently completed fiscal year ended December 31, 2010 (together the "Named Executive Officers").

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Award (\$)	Nonequity Incentive Plan Compensation (\$)	Non-qualified deferred compensation earning (\$)	All other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(3)	(3)	(f)(2)	(g)	(h)	(i)(1)	(j)
I. Richard Garr	2010	\$ 407,000	204,200	345,250	305,250			121,137	\$ 1,382,837
	2009	\$ 407,000	52,584	157,754	-			48,688	\$ 666,026

Chief Executive President, General Counsel (“PEO”)								
Karl Johe	2010	\$ 422,100	253,260	316,575	316,575		6,000	\$ 1,314,510
Chief Scientific Officer	2009	\$ 422,100	204,508	68,169	-		6,000	\$ 700,777
John Conron	2010	\$ 225,000	18,750	114,000	76,500		6,000	\$ 440,250
Chief Financial Officer	2009	\$ 225,000	7,481	22,444	-		6,000	\$ 260,925
Thomas Hazel	2010	180,000	15,000	-	-		-	\$ 195,000
Senior Vice President of Research	2009	\$ 180,000	15,000	-	-		-	\$ 195,000

(1) Includes automobile allowance, perquisites and other personal benefits.

(2) For additional information regarding the valuation of Option Awards, refer to Note 2 of our financial statements in the section captioned "Stock Options."

(3) For additional information regarding the valuation of Stock Awards, refer to Note 2 of our financial statements in the section captioned "Preferred and Common Stock."

## Employment Agreements and Arrangements and Change-In-Control Arrangements

## Employment Agreement with I. Richard Garr

We have a written employment agreement with Mr. Garr, our Chief Executive Officer and General Counsel. Pursuant to the agreement, as in effective, Mr. Garr is entitled to an annual salary of \$407,000 paid monthly of which \$30,000 is paid in connection with Mr. Garr's duties as general counsel. In addition, the agreement provides for certain performance bonuses as determined from time to time by our Compensation Committee. Mr. Garr's employment agreement also provides for a \$500 monthly automobile allowance and the reimbursement of reasonable business expenses. The term of the agreement is until October 31, 2012.

Mr. Garr's employment agreement also provides for severance ("Termination Provisions") in an amount equal to the greater of: (i) the aggregate compensation remaining on his contract; or (ii) \$1,000,000, in the event Mr. Garr is terminated for any reason. In the event of termination, the agreement also provides for the immediate vesting of 100% of stock options granted to Mr. Garr during his term of employment. These termination provisions apply whether employee is terminated for "cause" or "without cause." Additionally, in the event employee voluntarily terminates his employment following a change in control and material reassignment of duties, he will also be entitled to the termination provisions under the contract. In the event of early termination, the Termination Provisions will require us to make a substantial payment to the employee. By way of example, such payments would be approximately as follows:

Officer	Severance	Accelerated Vesting of Awards(1)	Total
I Richard Garr	\$ 1,000,000	\$ 1,944,000	\$ 2,944,000

(1) Derived from the intrinsic value of the stock options as of 12/31/10 using a market value of \$2.12 for the Company's common stock.

Mr. Garr's agreement contains non-solicitation, and confidentiality and non-competition covenants. The agreement may be terminated by either party with or without cause and without prior notice subject to the termination provisions as discussed.

## Employment Agreement with Karl Johe, Ph.D.

We have a written employment agreement with Mr. Johe, our Chief Scientific Officer. Pursuant to the agreement, as in effective, Mr. Johe is entitled to an annual salary of \$422,100 paid monthly. In additional, the agreement provides for certain performance bonuses as determined from time to time by our Compensation Committee. Mr. Johe's employment agreement also provides for a \$500 monthly automobile allowance and the reimbursement of reasonable business expenses. The term of the agreement is until October 31, 2012.

Mr. Johe's employment agreement also provides for severance ("Termination Provisions") in an amount equal to the greater of: (i) the aggregate compensation remaining on his contract; or (ii) \$1,000,000, in the event Mr. Johe is terminated for any reason. In the event of termination, the agreement also provides for the immediate vesting of 100% of stock options granted to Mr. Johe during his term of employment. These termination provisions apply whether employee is terminated for "cause" or "without cause." Additionally, in the event employee voluntarily terminates his employment following a change in control and material reassignment of duties, he will also be entitled to the termination provisions under the contract. In the event of early termination, the Termination Provisions will require us to make a substantial payment to the employee. By way of example, such payments would be approximately as follows:

Officer	Severance	Accelerated Vesting of Awards(1)	Total
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Karl Johe, Ph.D	\$	1,000,000	\$	1,944,000	\$	2,944,000
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(1)Derived from the intrinsic value of the stock options as of 12/31/10 using a market value of \$2.12 for the Company's common stock.

Mr. Johe's agreement contains non-solicitation, and confidentiality and non-competition covenants. The agreement may be terminated by either party with or without cause and without prior notice subject to the termination provisions as discussed.

Employment Agreement with John Conron.

On April 1, 2008, our written employment agreement with Mr. Conron, our Chief Financial Officer, terminated pursuant to its terms. Accordingly, Mr. Conron is currently an at-will employee. We currently pay Mr. Conron an annual salary of \$225,000. In addition, Mr. Conron receives performance bonuses as determined from time to time by our Compensation Committee. Mr. Conron also receives a \$500 monthly automobile allowance.

Employment Arrangement with Thomas Hazel

We have a written employee agreement with Mr. Hazel, our Senior Vice President of Research. We pay Mr. Hazel an annual salary of \$180,000 in connection with his employment.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information concerning unexercised options; stock that has not vested; equity incentives; and awards for each Named Executive Officer outstanding as of the end of the last completed fiscal year ending December 31, 2010.

Name (a)	Number of securities underlying unexercised options (#) (b)	Number of securities underlying unexercised options (#) (c)	Equity incentive plan awards: Number of securities unexercised		Option exercise price (\$) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)	Market value of shares of units of stock that have not vested (\$) (h)	Equity incentive plan award: Number of un-earned shares, units or other rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested
			Number of securities unexercised options (#) (d)	Equity incentive plan awards: Number of un-earned shares, units or other rights that have not vested (\$) (i)					Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested (\$) (j)	
<b>I. Richard</b>										
Garr	(1 ) 1,200,000	0			\$ 0.50	7/28/15				
	(2 ) 1,400,000	700,000			\$ 3.66	1/1/18				
	(3 ) -	263,147			\$ 2.21	11/15/20	138,122	292,819		
<b>Karl</b>										
Johe (4)	(5 ) 1,200,000	0			\$ 0.50	7/28/15				
	(6 ) 333,333				\$ 3.01	10/31/15				
	(7 ) 1,400,000	700,000			\$ 3.66	1/1/18				
	(8 ) -	272,909			\$ 2.21	11/15/20	143,247	303,684		
	(9 ) 100,000				\$ 3.15	4/1/15				



John Conron	(10)	50,000		\$ 2.60	4/1/18		
	(11)	1,000,000	-	\$ 2.60	4/1/18		
	(12)	-	65,948	\$ 2.21	11/15/20	34,615	73,384
Thomas Hazel	(13)	120,000	80,000	\$ 1.89	8/11/18		

- (1) On July 28, 2005, we granted our CEO an option to purchase 1,200,000 common shares. The option was granted under our 2005 Stock Plan. The option vests annually over 4 years at a rate of 300,000 per year. The applicable vesting dates are July 28, 2006, 2007, 2008 and 2009. The only vesting condition is Mr. Garr's continued employment.
- (2) On January 21, 2008, we granted our CEO an option to purchase 2,100,000 common shares. The grant has an effective date of January 1, 2008. The option was granted under our 2007 Stock Plan. The option vests at a rate of 700,000 per 14 month period. The applicable vesting dates are February 28, 2009, April 30, 2010, and June 30, 2011. The only vesting condition is Mr. Garr's continued employment.
- (3) On November 11, 2010, we granted our CEO an option to purchase 263,147 common shares and 138,122 restricted stock units. The award was granted under our 2010 Stock Plan. The awards vest quarterly over three years effective November 11, 2010. The only vesting condition is Mr. Garr's continued employment.

- (4) Outstanding equity awards for Mr. Johe do not include warrants to purchase an aggregate of 3,000,000 common shares that were issued on June 5, 2007.
- (5) On July 28, 2005, we granted our CSO an option to purchase 1,200,000 common shares. The option was granted under our 2005 Stock Plan. The option vests annually over 4 years at a rate of 300,000 per year. The applicable vesting dates are July 28, 2006, 2007, 2008 and 2009. The only vesting condition is Mr. Johe's continued employment.
- (6) On September 20, 2007, we granted our Chairman and Chief Scientific Officer, an option to purchase an aggregate of 333,333 shares of our common stock at a price per share of \$3.01 pursuant to our 2005 Stock Plan. The option expires 5 years from the date when they become exercisable. The option vests on October 31, 2010. The option is immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock option grants under his employment agreement.
- (7) On January 21, 2008, we granted our CSO an option to purchase 2,100,000 common shares. The grant has an effective date of January 1, 2008. The option was granted under our 2007 Stock Plan. The option vests at a rate of 700,000 per 14 month period. The applicable vesting dates are February 28, 2009, April 30, 2010, and June 30, 2011. The only vesting condition is Mr. Johe's continued employment.
- (8) On November 11, 2010, we granted our CSO an option to purchase 272,909 common shares and 143,247 shares of restricted stock units. The award was granted under our 2010 Stock Plan. The awards vest quarterly over three years effective November 11, 2010. The only vesting condition is Mr. Johe's continued employment.
- (9) In April of 2007, we granted our CFO an option to purchase 100,000 common shares pursuant to his employment contract. The option is fully vested as of December 31, 2008.
- (10) On April 1, 2008, we granted our CFO an option to purchase 50,000 common shares. The grant was made pursuant to Mr. Conron's employment agreement. The option was fully vested at the grant date.
- (11) On April 1, 2008, we granted our CFO an option to purchase 1,000,000 common shares. The option vests at an annual rate of 333,333 per year. The vesting dates are April 1, 2009, 2010 and 2011. The only vesting condition is Mr. Conron's continued employment.
- (12) On November 11, 2010, we granted our CFO an option to purchase 65,948 common shares and 34,615 shares of restricted stock. The award was granted under our 2010 Stock Plan. The awards vest quarterly over three years effective November 11, 2010. The only vesting condition is Mr. Conron's continued employment.
- (13) On August 8, 2008, we granted the Sr. Vice President of Operations an option to purchase 200,000 common shares. The grant was made pursuant to Mr. Hazel's employment agreement. The option vests at 40,000 immediately on award and the remainder annually over 4 years at a rate of 40,000 per year.

#### Director Compensation

The following table summarizes the compensation for our board of directors for the fiscal year ended December 31, 2010:

Fees Earned	Non-Equity	Nonqualified Deferred
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Name	or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Incentive Plan Compensation (\$)	Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
<b>William Oldaker</b>							
Independent Director(1)(3)	\$ 43,750	32,550	21,363				\$ 97,663
Audit Committee(2)	\$ 5,000		5,341				\$ 10,341
Compensation Committee(2)	\$ 3,500		5,341				\$ 8,841
Nomination Committee(2)	\$ 5,000		5,341				\$ 10,341
<b>Scott Ogilvie</b>							
Independent Director(1)(3)	\$ 43,750	32,550	21,363			4,237	\$ 101,900
Audit Committee(2)	\$ 5,000		5,341				\$ 10,341
Compensation Committee(2)	\$ 2,000		5,341				\$ 7,341
Nomination Committee(2)	\$ 5,000		5,341				\$ 10,341

- (1) On July 12, 2010, pursuant to our adopted director compensation plan, we issued to each of Messrs. Ogilvie and Oldaker options to purchase 20,000 shares of our common stock. The options were issued pursuant to our 2007 Stock Plan. The exercise price per share is \$2.51 and will expire 10 years from the date of grant. The individual grants vest on July 12, 2011.
- (2) On July 12, 2010, pursuant to our adopted director compensation plan, we issued to each of Messrs. Ogilvie and Oldaker, options to purchase 15,000 shares of our common stock (5,000 shares per each committee on which they serve). The options were issued pursuant to our 2007 Stock Plan. The exercise price per share is \$2.51 and the options vest on July 12, 2011.
- (3) On November 15, 2010, pursuant to a meeting of the Compensation Committee, the Company awarded existing independent directors an additional 15,000 restricted fully paid and vested common shares to compensate for changes to the new director compensation structure. Mr. Oldaker received restricted stock units (RSUs) and Mr. Ogilvie received restricted stock.

#### Director Compensation Plan

Our Compensation Committee has adopted a formal outside director compensation plan to assist us in attracting and retaining qualified directors. In November of 2010, the plan was modified. Accordingly, our directors are compensated as follows:

#### Legacy Plan (Ended December 31, 2010)

##### Option Grants

**First Year Grant.** Upon joining the board, individual will receive options to purchase 45,000 common shares. The options shall vest as follows: (i) 25,000 shall vest on the one month anniversary of joining the Board; and (ii) 20,000 shall vest quarterly over a one year period commencing on the date such Director joins the Board. For purpose of the First Year option grant, all current eligible directors will be considered "First Year" directors and be eligible for such grant;

**Annual Grant.** Starting on the first year anniversary of service, and each subsequent anniversary thereafter, each eligible director will be granted options to purchase 20,000 shares of common stock. These Annual Grants will vest quarterly during the year; and

**Committee Grant.** Each Director will receive options to purchase an additional 5,000 shares for each committee on which he or she serves. These Committee Grants will vest quarterly during the year.

The exercise price for the options to be granted to the independent directors shall be the market price of the stock on each applicable grant date. The options shall expire 7 years from the grant date. The option will be granted pursuant to our 2005 Stock Plan, or as directed by the Board of Directors.

##### Cash Compensation

**Board Retention Amount.** Each director shall receive a \$20,000 annual board retainer. The retainer shall be payable quarterly commencing on January 1, 2008.

**Committee Retainer.** In addition to the Board Retention Amount, each director serving on a committee shall receive an additional \$5,000 per committee on which he serves.

#### Current Plan (Effective January 1, 2011)

## Securities

**First Year Grant.** Upon joining the board, individual will receive a restricted stock grant equal to 25,000. The restricted shares shall vest as follows: (i) 12,500 shall vest on the one month anniversary of joining the Board; and (ii) 12,500 shall vest quarterly over a one year period commencing on the date such Director joins the Board. All current eligible directors will receive, in addition to their Annual Grant, 15,000 shares of restricted stock.

**Annual Grant.** Starting on the first year anniversary of providing service, and each subsequent anniversary thereafter, each eligible director will be granted, at the directors' election, options purchase 20,000 shares of common stock or the equivalent value of restricted shares or restricted stock units. These Annual Grants will vest quarterly during the year.

**Committee Grant.** Each Director will receive either options to purchase an additional 5,000 shares or the equivalent value of restricted shares or restricted stock units for each committee on which he or she serves. These Committee Grants will vest quarterly during the year. The exercise price for the options to be granted to the independent directors shall be the market price of the stock on each applicable grant date. With regard to options, the options shall expire 7 years from the grant date. The option, restricted stock or restricted stock units will be granted pursuant to our incentive stock option plans, or as directed by the Board of Directors.

All restricted stock grants and restricted stock units will contain a restriction prohibiting the sale of the shares until such time as the director ceases to provide services to the company, or upon a change in control.

#### Cash Compensation

**Board Retention Amount.** Each director shall receive a \$20,000 annual board retainer. The retainer shall be payable quarterly.

**Committee Retainer.** In addition to the Board Retention Amount, each director serving on a committee shall receive an additional \$5,000 per committee on which he serves.

**Meeting Fees.** Each director shall receive a meeting fee equal to: (i) \$1,500 for in person attendance, and (ii) \$750 for telephonic attendance.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

##### Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding shares authorized for issuance under equity compensation plans approved and not approved by stockholders required by this Item is incorporated by reference from Item 5 of this Annual Report from the section entitled "Equity Compensation Plan Information."

##### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 1, 2011, information regarding beneficial ownership of our capital stock by:

- each person, or group of affiliated persons, known by us to be the beneficial owner of 5% or more of any class of our voting securities;
- each of our current directors and nominees;
- each of our current named executive officers; and
- all current directors and named executive officers as a group.

Beneficial ownership is determined according to the rules of the SEC. Beneficial ownership means that a person has or shares voting or investment power of a security and includes any securities that person or group has the right to acquire within 60 days after the measurement date. This table is based on information supplied by officers, directors and principal stockholders. Except as otherwise indicated, we believe that each of the beneficial owners of the common stock listed below, based on the information such beneficial owner has given to us, has sole investment and voting power with respect to such beneficial owner's shares, except where community property laws may apply.

Name and Address of Beneficial Owner(1)	Common Stock			Percent of Class(2)
	Shares (3)	Shares Underlying Convertible Securities(2)	Total	

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Directors and named executive officers					
Karl Johe, Ph.D	1,740,674	3,956,075	5,696,749	11.78	%
I. Richard Garr	1,443,308	2,621,929	4,065,237	8.41	%
Stanley Westreich	1,470,402		1,470,402	3.04	%
John Conron	66,743	1,155,495	1,222,238	2.53	%
William Oldaker	104,300	156,250	260,550	*	%
Scott Ogilvie	15,000	156,250	171,250	*	%
Thomas Hazel, Ph.D	0	120,000	120,000	*	%
All directors and executive officers as a group (7 persons)			13,006,426	26.89	%

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\* Less than one percent.

(1) Except as otherwise indicated, the persons named in this table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and to the information contained in the footnotes to this table. Unless otherwise indicated, the address of the beneficial owner is c/o Neuralstem, Inc. 9700 Great Seneca Highway, Rockville, MD.

(2) Pursuant to Rules 13d-3 and 13d-5 of the Exchange Act, beneficial ownership includes any shares as to which a shareholder has sole or shared voting power or investment power, and also any shares which the shareholder has the right to acquire within 60 days, including upon exercise of common shares purchase options or warrant. There are 48,366,304 shares of common stock issued and outstanding as of March 1, 2011.

(3) Shares include fully paid issued and outstanding shares, restricted shares and restricted share units.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

##### Transactions with Related Persons, Promoters and Certain Control Persons

Summarized below are certain transactions and business relationships between Neuralstem and persons who are or were an executive officer, director or holder of more than five percent of any class of our securities since January 1, 2009 or which have been proposed since December 31, 2010.

Information regarding disclosure of an employment relationship or transaction involving an executive officer and any related compensation solely resulting from that employment relationship or transaction is incorporated by reference from Item 11 of this Annual Report.

Information regarding disclosure of compensation to a director is incorporated by reference from Item 11 of this Annual Report.

Information regarding the identification of each independent director is incorporated by reference from Item 10 of this Annual Report

On February 9, 2009, our compensation committee awarded Messrs Garr and Conron 2008 discretionary cash bonuses in the amount of \$312,033 and \$60,000, respectively. Both individuals voluntarily agreed to defer such bonuses until such later date as our cash position increased. On December 28, 2009, we requested that Messrs Garr and Conron exchange their respective obligations for restricted common shares in a private placement. As a result of the exchange, Mr. Garr received 189,111 restricted shares and Mr. Conron received 36,364 restricted shares as payment in full of their respective obligations. The purchase price per share was \$1.65. The transaction was unanimously approved by our audit committee as well as our disinterested board members.

##### Director Independence

Information regarding director independence required by this Item is incorporated by reference from Item. 10 of this Annual Report from the section entitled "Director Independence."

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the approximate aggregate fees billed to us or expected to be billed to us by our independent auditors, Stegman & Company, for our 2010 and 2009 fiscal years:





Type of Fees	2010	2009
Audit Fees	\$94,367	\$69,256
Audit Related Fees (1)	23,000	-
Tax Fees	6,500	6,000
All Other Fees		
Total Fees	\$123,867	\$75,256

(1) Fees associated with issuance of comfort letter.

#### Pre-Approval of Independent Auditor Services and Fees

Our audit committee reviewed and pre-approved all audit and non-audit fees for services provided by Stegman & Company and has determined that the provision of such services to us during fiscal 2010 and in connection with the audit of our 2010 fiscal year financials is compatible with and did not impair independence. It is the practice of the audit committee to consider and approve in advance all auditing and non-auditing services provided to us by our independent auditors in accordance with the applicable requirements of the SEC. Stegman & Company did not provide us with any services, other than those listed above.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- I. Financial Statements: See "Index to Financial Statements" in Part II, Item 8 of this Form 10-K.
2. Exhibits: The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Form 10-K.

Certain of the agreements filed as exhibits to this Form 10-K contain representations and warranties by the parties to the agreements that have been made solely for the benefit of the parties to the agreement. These representations and warranties:

- may have been qualified by disclosures that were made to the other parties in connection with the negotiation of the agreements, which disclosures are not necessarily reflected in the agreements;
- may apply standards of materiality that differ from those of a reasonable investor; and
- were made only as of specified dates contained in the agreements and are subject to later developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time, and investors should not rely on them as statements of fact.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEURALSTEM, INC

Dated: March 16, 2011

By: /S/ I Richard Garr  
I Richard Garr  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the following capacities and on the dates indicated.

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Name	Title	Date
/s/ I. Richard Garr I. Richard Garr	President, Chief Executive Officer, General Counsel and Director (Principal executive officer)	March 16, 2011
/s/ John Conron John Conron	Chief Financial Officer (Principal financial and accounting officer)	March 16, 2011
/s/ Karl Johe Karl Johe	Chairman of the Board and Director	March 16, 2011
/s/ William Oldaker William Oldaker	Director	March 16, 2011
/s/ Scott Ogilvie Scott Ogilvie	Director	March 16, 2011
/s/ Stanley Westreich Stanley Westreich	Director	March 16, 2011

## INDEX TO EXHIBITS

Exhibit No.	Description	Filed		Incorporated by Reference		
		Herewith	Form	Exhibit No.	File No.	Filing Date
1.01	Form of Placement Agent Agreement dated June 28, 2010		8-K	1.01	001-33672	6/29/10
1.02	Form of Amendment to Placement Agent Agreement dated June 28, 2010		8-K	1.02	001-33672	6/29/10
1.03	ATM Equity Offering Sales Agreement dated November 22, 2010, between Neuralstem, Inc. and Stifel, Nicolaus & Company, Incorporated		8-K	1.1	001-33672	11/22/10
3.01(i)	Amended and Restated Certificate of Incorporation of Neuralstem, Inc. filed on 9/29/05		10-K	3.01(i)	001-33672	3/31/09
3.02(i)	Certificate of Amendment to Certificate of Incorporation of Neuralstem, Inc. filed on 5/29/08		DEF 14A	Appendix I	001-33672	4/24/08
3.03(ii)	Amended and Restated Bylaws of Neuralstem, Inc. adopted on July 16, 2007		10-QSB	3.2(i)	333-132923	8/14/07
4.01**	Amended and Restated 2005 Stock Plan adopted on June 28, 2007		10-QSB	4.2(i)	333-132923	8/14/07
4.02**	Non-qualified Stock Option Agreement between Neuralstem, Inc. and Richard Garr dated July 28, 2005		SB-2	4.4	333-132923	6/21/06
4.03**	Non-qualified Stock Option Agreement between Neuralstem, Inc. and Karl Johe dated July 28, 2005		SB-2	4.5	333-132923	6/21/06

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4.04	Form of Placement Agent Warrant issued in connection with the March 2006 offering	SB-2	4.13	333-132923	6/21/06
4.05	Form of Securities Purchase Agreement dated March 15, 2007	8-K	4.1	333-132923	3/16/07
4.06	Form of Common Stock Purchase Warrant dated March 15, 2007 (Series C)	8-K	4.2	333-132923	3/16/07
4.07	Form of Registration Rights Agreement dated March 15, 2007	8-K	4.3	333-132923	3/16/07
4.08**	Neuralstem, Inc. 2007 Stock Plan	10-QSB	4.21	333-132923	8/14/07
4.09	Form of Common Stock Purchase Warrant Issued to Karl Johe on June 5, 2007	10-KSB	4.22	333-132923	3/27/08

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4.10	Form of Placement Agent Warrant Issued to Midtown Partners & Company on December 18, 2008	8-K	4.1	001-33672	12/18/08
4.11	Form of Consultant Common Stock Purchase Warrant issued on January 5, 2009	S-3/A	10.1	333-157079	02/3/09
4.12	Form of Series D, E and F Warrants	8-K	4.01	001-33672	7/1/09
4.13	Form of Placement Agent Warrant	8-K	4.02	001-33672	7/1/09
4.14	Form of Consultant Warrant Issued January 8, 2010	10-K	4.20	001-33672	3/31/10
4.15	Form of Replacement Warrant Issued January 29, 2010	10-K	4.21	001-33672	3/31/10
4.16	Form of Replacement Warrant Issued March of 2010	10-K	4.22	001-33672	3/31/10
4.17	Form of employee and consultant option grant pursuant to our 2007 Stock Plan and 2010 Equity Compensation Plan	10-K	4.23	001-33672	3/31/10
4.18	Form of Warrants dated June 29, 2010	8-K	4.01	001-33672	6/29/10
4.19**	Neuralstem 2010 Equity Compensation Plan	8-K	10.01	001-33672	7/14/10
4.20	Form of Consultant Warrant issued October 1, 2009 and 2010	S-3	4.07	333-169847	10/8/10
4.21**	Form of Restricted Stock Award Agreement pursuant to our 2007 Stock Plan and 2010 Equity Compensation Plan.	S-8	4.06	333-172563	3/1/11
4.22**	Form of Restricted Stock Unit Agreement	S-8	4.08	333-172563	3/1/11
10.01**	Employment Agreement with I. Richard Garr dated January 1, 2007 and	SB-2	10.1	333-132923	6/21/06

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amended as of November 1, 2005					
10.02**	Amended terms to the Employment Agreement of I Richard Garr dated January 1, 2008	10-K	10.02	001-33672	3/31/09
10.03**	Employment Agreement with Karl Johe dated January 1, 2007 and amended as of November 1, 2005	SB-2	10.2	333-132923	6/21/06
10.04**	Amended terms to the Employment Agreement of Karl Johe dated January 1, 2009	10-K	10.04	001-33672	3/31/09
10.05	Form of Securities Purchase Agreement dated June 29, 2010	8-K	10.01	001-33672	6/29/10



10.06	Employment Agreement with Thomas Hazel, Ph.D dated August 11, 2008	10-K/A	10.05	001-33672	10/5/10
10.07	Consulting Agreement dated January 2010 between Market Development Consulting Group and the Company and amendments No. 1 and 2.	*			
14.01	Neuralstem Code of Ethics	SB-2	14.1	333-132923	6/21/06
14.02	Neuralstem Financial Code of Profession Conduct adopted on May 16, 2007	8-K	14.2	333-132923	6/6/07
21.01	Subsidiaries of the Registrant	*			
23.01	Consent of Stegman & Company	*			
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*			
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*			
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. § 1350	*			
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. § 1350	*			

\*\*Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.