E X C E R P T E D F R O M :

OCTOBER 30, 2006

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT

COMPANY INTERVIEW

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Stem Cell Innovations, Inc.

Founded 1963
Published by Wall Street Transcript Corporation
67 Wall Street, New York, NY 10005

Stem Cell Innovations, Inc. (SCLL)

JAMES H. KELLY is the President and Chief Executive Officer of Stem Cell Innovations, Inc. He was a co-Founder of Amphioxus Cell Technologies, one of the predecessor companies to SCI. Prior to founding Amphioxus, Dr. Kelly was co-Founder and Vice President of Research and Development for Hepatix, Inc., a developer of artificial liver devices. From 1990 to 1995 he was responsible for the overall progress of non-clinical programs in both the US and Europe, directing a team of over 30 scientists and technicians. Prior to founding Hepatix, Dr. Kelly spent eight years on the faculty of Baylor College of Medicine. His postdoctoral training was obtained at Baylor and the Wistar Institute of the University of Pennsylvania. He holds a BA in Chemistry and a PhD in Biochemistry from Temple University in Philadelphia. Dr. Kelly has numerous publications in cell biology, particularly liver biology, and holds several patents and applications in the fields of liver and stem cell biology.

SECTOR – BIOTECHNOLOGY

(AFC612) TWST: What is Stem Cell Innovations?

Dr. Kelly: We're a cell biology company. We were formed in February of this year from three smaller companies — my previous company Amphioxus Cell Technologies, another company called Plurion, and a public shell called Interferon Sciences. We merged those three in February of this year to form Stem Cell Innovations with the idea of using cell biology to address a variety of areas that we feel are emerging fields in both the pharmaceutical industry and in medicine. Cells are the basic structure of life. Cells are the things that live and die and so pharmaceuticals and medicines operate at the level of cell.

Amphioxus Cell Technologies was based on doing human liver cell biology, using human liver cells to support drug development. The liver is one the main metabolic organs of the body, so it is one of the first things that drugs see when they are absorbed through the intestine, so the liver has a significant effect on whether a drug has a very short life, whether it builds up in the blood stream, whether it kills off the cells, etc. The liver is central to drug metabolism.

Two years ago we decided to expand with the idea that, by using stem cells, we could generate other cell types that we could plug in — such as heart, lung, liver, and kidney — in the same infrastructure of assays, robotics, and so on, that we had developed for the liver and really do extensive in vitro testing of drugs before they go on the market. This way, things like the Vioxx recall and so on, where unknown, unforeseen toxicities show up after drugs get out on to the market, could be understood and eliminated beforehand by doing extensive testing of cells in a dish rather than in a person.

So that was really the emphasis for acquiring Plurion and forming Stem Cell Innovations — to develop stem cells. Stem cells can become any

cell type in the body. Stem cells by their nature can become heart, lung, liver, kidney, etc. We are now using those stem cells to generate those different types of cells, as I mentioned, and using them to test new drugs.

TWST: What's the agenda at this point? What are your priorities? What would make Stem Cell Innovations a successful stem company?

Dr. Kelly: We've spent the last couple of years developing the stem cells themselves. In the embryonic stem cell field, most of the intellectual property is controlled by the University of Wisconsin. That, coupled with the presidential ban on funding certain types of stem cell activities, has put a damper on how stem cell research has moved forward in the US. Part of what we were doing was to develop a different set of embryonic cells, and especially a set of intellectual property, that was completely independent of the University of Wisconsin. Our cells are also outside the presidential ban. What we have now are stem cells that can become any type of cell type in the body but can be used in regular academic labs. Our cells don't have some of the problems that other embryonic stem cells have.

"We have a very practical outlook and are concentrated on the application of stem cells in drug and cell therapy. Our cells are outside the presidential ban, so that doesn't affect our work, and I think the controversy will subside as people see real advances coming from stem cell research."

Over the next year, now that we have those cells, our objectives are threefold. We are trying to get the cells out into academic research labs. We recently had a series of announcements that we signed material transfer agreements with several universities. Now, people who are working on stem cells in NIH-funded laboratories can use the cells to advance the science. There's a lot of information that we still don't know about stem cells that will be figured out in university laboratories. In return for supplying the cells, Stem Cell Innovations gets a non-exclusive license to any patent that comes out of the work and the right to negotiate an exclusive license, so it's a way for us to bring new technology into company, while at the same time advancing the science and creating new business opportunities. That's really our first objective.

The second objective is to talk to patient organizations that are working on various kinds of intractable sorts of diseases — Lou Gehrig's disease, Huntington's disease, and so on. Those patient organizations are very interested in stem cell therapy for these kinds of diseases. We're trying to work out agreements with some of those organizations for using the cells to move research forward, both on a drug discovery level and on a cell therapy level. One of the interesting things about the patient organizations is that they are extremely aggressive and they are very open to using new technology. We think that working with the patient organizations is an excellent path for generating agreements for drug discovery, and so on. And then thirdly, of course, we are also talking to some of the major pharmaceutical companies.

Those three things really are our objectives over the next year — get the cells to the universities, sign agreements with patient organizations, and, of course, get a couple of agreements with biotechnology or pharmaceutical companies.

TWST: What has been the funding and financing history? Are any of those items on the agenda?

Dr. Kelly: Small biotech companies are always looking for great funding sources. We have a

number of large and small investors and have about six months worth of money at the moment. We're also in the process of doing a small round of financing to move some of these ideas that I outlined to maturity with the intention of doing a larger financing sometime next year.

TWST: Introduce us to your top-level management team, two or three of your key individuals.

Dr. Kelly: I am the CEO. Larry Gordon, who is the former CEO of Interferon Sciences, stayed on after the merger to help me with various aspects of running a public company. Mark Germain is Chairman of the Board and has been in biotech for quite a long time and has founded a number of successful companies.

David Perryman is our patent counsel and was one of the Founders of Plurion. He is with Needle and Rosenberg, in Atlanta. Helmuth van Es is our Chief Scientific Officer in our European Laboratory, and Ivo Piest is our Director of Business Development. Helmuth and Ivo are veterans of Galapagos, a spinoff of Crucell, a very successful biotech in the Netherlands.

And then we also have been able to recruit really quite an outstanding group of outside Board members: Tony Coehlo, who is President of the Epilepsy Foundation of America and formerly in the US House of Representative; Lou Noto, who was formerly Chairman of Mobil Oil; John Macomber, former CEO of Celanese Corp; and Norman Sussman, a liver transplant physician at the Baylor College of Medicine. These men are all actively involved and are helping us both with advice and introductions.

TWST: What historically has been the shareholder base with Stem Cell Innovations? Has that base changed?

Dr. Kelly: It has not changed so much, and mostly the shareholders at the moment are former Interferon Sciences' shareholders. As I said, we only formed the company in February, and really only now are beginning to come more into the public eye. We're at a position now where our technology has developed to a point where we're out doing interviews and things like this to raise the awareness of our company and, with that idea, to broaden our shareholder base.

TWST: In your discussions with the investment community, are there any misperceptions or recurring questions? Do they understand the story?

Dr. Kelly: I think so. Naturally there is always the question about stem cells and the presidential ban on NIH funding, etc. There are always those kinds of questions. We have a very practical outlook and are concentrated on the application of stem cells in drug and cell therapy. As I said, our cells are outside the presidential ban, so that doesn't affect our work, and I think the controversy will subside as people see real advances coming from stem cell research.

TWST: What should investors be focused on? Are there any metrics or any events that investors should focus on as they track your performance?

Dr. Kelly: Yes, I think that those three things that I mentioned earlier, the licensing with the universities, the agreements with patient organizations, agreements with large and small biotech companies, those will certainly be metrics. Look at other companies in this area, companies like Geron, like Osiris, like Stem Cells, Inc. Geron is valued at around $500 million, Osiris in the $200 million ballpark, Stem Cells is kind of that number as well. With our company, we have the ability to spin off multiples of those kinds of companies. So, for example, because our cells can become any cell type — they can be-

come heart cells, they can become brain cells, and so on — it's our plan that as the technology develops, we will spin off separate companies that have the appropriate management and so on to drive those projects forward. A company that is doing clinical trials in Parkinson's disease, for example, is really different from a company that's doing drug development in cardiology, for example. Trying to keep those projects under one roof is counterproductive in that the company doesn't get valued on its entire portfolio, but it is counterproductive in a management sense. It's very difficult to assemble a team that has good skills in all of those areas. So it's our intention that as each of these various technologies matures, we'll spin them off into specific companies. We have the ability to spin off literally 10 companies that can have a $200 million dollar kind of valuation. We think, of course, that Stem Cell Innovations at the moment is something that is going to take a bit of time to fully develop, but we think that over the next couple of years we will be able to dramatically improve the valuation.

TWST: What would compel investors to include Stem Cell Innovations not only as part of their current portfolios but also as part of their longer-term investment strategies?

Dr. Kelly: This is something of a cliché, but biotech companies that have been the second and third movers in their field have in fact done very well. If you look at Amgen as a sort of example, $4 a share in 1984 would be worth almost $4,000 a share today. Over the first 15 years of Amgen's business, their valuation went up by tenfold every five years, and we think we have the wherewithal to become that kind of company over the years. We are the second or third mover into a brand new field that has the ability to completely change the way we go about pharmaceutical development and think about some really intractable diseases, things like Parkinson's and ALS and so on. So I think that investors should add Stem Cell Innovations to their portfolio now with the idea of holding it as the valuation rises.

TWST: Thank you. (DWA)

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