U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 2009

Or

☐ **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

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**

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 ☐

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 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 ☐ (Do not check if a small reporting company)	Smaller reporting company ☒

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

As of May 1, 2009 there were 33,751,300 shares of common stock, $.01 par value, issued and outstanding.

Neuralstem, Inc.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Neuralstem, Inc.

Balance Sheets

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,567,108	$ 4,903,279
Prepaid expenses	99,427	136,287
Total current assets	3,666,535	5,039,566
Property and equipment, net	155,516	163,930
Intangible assets, net	239,088	212,265
Other assets	61,472	52,972
Total assets	$ 4,122,611	$ 5,468,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,630,442	$ 1,265,488
LONG-TERM LIABILITIES		
Fair value of warrant obligations	2,762,835	-
Total liabilities	4,393,277	1,265,488
STOCKHOLDERS' (DEFICIT) EQUITY		
Preferred stock, 7,000,000 shares authorized, zero shares issued and outstanding		
Common stock: $0.01 par value; 150 million shares authorized, 33,751,300 shares outstanding in 2009 and 2008	337,513	337,513
Additional paid-in capital	58,688,611	61,352,527
Accumulated deficit	(56,296,790)	(57,486,795)
Total stockholders' (deficit) equity	(270,666)	4,203,245
Total liabilities and stockholders' equity	$ 4,122,611	$ 5,468,733

Neuralstem, Inc.

Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2009	2008
Revenues	$ -	$ -
Operating expenses:		
Research and development costs	1,434,010	1,198,843
General, selling and administrative expenses	1,457,238	1,083,169
Depreciation and amortization	20,796	13,757
	2,912,044	2,295,769
Operating loss	(2,912,044)	(2,295,769)
Nonoperating income:		
interest income	2,264	21,317
Gain from change in fair value of warrant obligations	3,815,458	-
	3,817,722	21,317
Net Income (loss) attributable to common shareholders	$ 905,678	$ (2,274,452)
Net income (loss) per share, basic	$ 0.03	$ (0.07)
Net income (loss) per share, diluted	$ 0.03	$ (0.07)
Weighted average common shares outstanding - basic	33,751,300	31,762,872
Weighted average common shares outstanding - diluted	35,643,178	31,762,872

Neuralstem, Inc.

Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 2009	2008
Cash Flows From Operating Activities:		
Net income (loss)	$ 905,678	$ (2,274,452)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	20,796	13,758
Stock based expenses	1,198,704	1,094,538
Gain from change in fair value of warrants	(3,815,458)	0
Changes in operating assets and liabilities:		
Prepaid expenses	36,860	6,655
Other assets	(8,500)	(6,001)
Accounts payable and accrued expenses	364,954	(522,692)
Net cash used in operating activities	(1,296,966)	(1,688,194)
Cash Flows From Investing Activities:		
Capital outlay for intangible assets	(33,948)	(2,744)
Purchase of property and equipment	(5,257)	(28,886)
Net cash used in investing activities	(39,205)	(31,630)
Cash Flows From Financing Activities:		
Issuance of common stock	-	2,573,937
Net cash provided by financing activities	0	2,573,937
Net (decrease) increase in cash	(1,336,171)	854,113
Cash and cash equivalents, beginning of period	4,903,279	7,403,737
Cash and cash equivalents, end of period	$ 3,567,108	$ 8,257,850

Neuralstem, Inc.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months Ended March 31, 2009
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
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 under EITF 07-5			(6,862,620)	284,327	(6,578,293)
Balance, January 1, 2009, as adjusted	33,751,300	$ 337,513	54,489,907	(57,202,468)	(2,375,048)
Share based payment - employee compensation			1,198,704		$ 1,198,704
Net income				905,678	905,678
Balance at March 31, 2009	33,751,300	$ 337,513	$ 55,688,611	$ (56,296,790)	$ (270,666)

NEURALSTEM, INC.
NOTES TO (UNAUDITED) FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited financial statements of Neuralstem, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States and the rules and regulations of the Securities and Exchange Commission (the "SEC"), for interim financial information. Therefore, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The interim financial statements are unaudited, but in the opinion of management all adjustments, consisting only of normal recurring accruals, considered necessary to present fairly the results of these interim periods have been included. The results of the Company's operations for any interim period are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Note 2. Significant Accounting Policies and Recent Accounting Pronouncements

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 generates limited amounts of cash which will not be sufficient to meet its future capital requirements. 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 and 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 and access to funds that we will not require additional debt or equity financing during 2009.

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.

Revenue Recognition

Our revenue recognition policies are in accordance with the SEC's Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements* as amended by SAB 104. Our revenue is 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 basic and 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 or Loss per Common Share

Basic income or loss per common share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share adjusts basic income or loss per share for the potentially dilutive effects of shares issuable under our stock option plan, using the treasury stock method. At March 31, 2009 6,500,659 options and 4,212,000 warrants were excluded from the calculation as their effect would have been anti-dilutive. At March 31, 2008 all of the Company's 7,400,659 options and 11,158,515 warrants have been excluded from the calculation as their effect would have been anti-dilutive.

	For The Three Months Ended March 31,	
	2009	2008
Basic:		
Net income (loss) attributable to common shareholders	$ 905,678	$ (2,274,452)
Weighted average common shares outstanding	33,751,300	31,762,872
Basic earnings per common share	$ 0.03	$ (0.07)
Diluted:		
Net income (loss) attributable to common shareholders	$ 905,678	$ (2,274,452)
Weighted average common shares outstanding	33,751,300	31,762,872
Dilutive effect of stock options and warrants	1,891,878	-
Weighted average common shares outstanding - diluted	35,643,178	31,762,872
Diluted earnings per common share	$ 0.03	$ (0.07)

Share Based Payments

We have granted stock-based compensation awards to employees and board members. Awards may consist of common stock, 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 three months ended March 31, 2009, we granted no options, and in the similar period ended March 31, 2008, we granted 4,200,000 options. We recorded related compensation expenses as our options vest in accordance with the Statement of Financial Accounting Standards ("SFAS") 123(R), *Share-Based Payment.* We recognized $1,198,704 and $1,094,538 in share-based compensation expense during the three months ended March 31, 2009 and 2008, respectively, from the vesting of stock options or warrants.

A summary of stock option activity during the three months ended March 31, 2009 and related information is included in the table below:

	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	196,000	1.64		
Exercised	-			
Forfeited	-			
Outstanding at March 31, 2009	8,996,659	$ 2.53	7.9	$ 1,152,000
Exercisable at March 31, 2009	3,872,326	$ 2.07	7.3	$ 864,000

Share-based compensation expense included in the statements of operations for the three months ended March 31, 2009 and 2008 was as follows:

	Three Months Ended March 31,	
	2009	2008
Research and development costs	$ 740,201	$ 752,014
General, selling and administrative expenses	458,503	342,524
Total	$ 1,198,704	$ 1,094,538

Warrants to purchase common stock were issued to certain officers, directors, stockholders and consultants.

	Number of Options	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	-
Granted	-			
Exercised	-			
Forfeited	-			
Outstanding at March 31, 2009	13,079,762	$ 2.27	2	-
Exercisable at March 31, 2009	10,079,762	$ 2.05	2	-

Effective January 1, 2009 we adopted the provisions of EITF 07-05, described below. As a result of adopting EITF 07-05, 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

As such, effective January 1, 2009 we reclassified the fair value of these 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. The fair value of these common stock purchase warrants declined to $2.8 million as of March 31, 2009. We recognized a $3.8 million gain from the change in fair value of these warrants for the three months ended March 31, 2009.

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:

	March 31, 2009	January 1, 2009
Annual dividend yield	—	—
Expected life (years)	1.25 to 2.75	1 to 2.5
Risk-free interest rate	0.4%	0.4%
Expected volatility	73%	86%

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.

Significant New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 157, *"Fair Value Measurements."* SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The implementation of SFAS 157 did not have a material impact on our financial statements.

In June 2007, the FASB ratified a consensus opinion reached by the Emerging Issue Task Force ("EITF") on EITF Issue 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities."* The guidance in EITF Issue 07-3 requires use to defer and capitalize nonrefundable advance payments made for goods or services to be use in research and developments activities until the goods have been delivered or the related services have been performed. If the goods are no longer expected to be delivered nor the services expected to be performed, we would be required to expense the related capitalized advance payments. The consensus in EITF Issue 07-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2007 and is to be applied prospectively to new contracts entered into on or after December 15, 2007. Early adoption is not permitted. Retrospective application of EITF Issue 07-3 is also not permitted. The impact of applying this consensus did not have material effect on our research and development contractual arrangements entered into on or after December 15, 2007.

In December 2007, the FASB ratified a consensus reached by the EITF on Issue 07-1, *"Accounting for Collaborative Arrangements."* The EITF concluded on the definition of a collaborative arrangement and that revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF 99-19 and other accounting literature. Based on the nature of the arrangement, payments to or from collaborators would be evaluated and its terms, the nature of the entity's business, and whether those payments are within the scope of other accounting literature would be presented. Companies are also required to disclose the nature and purpose of collaborative arrangements along with the accounting policies and the classification and amounts of significant financial-statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF 07-1 applies to the entire collaborative agreement. EITF 07-1 is effective for us January 1, 2008 and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. The adoption of EITF 07-1 did not have a material impact on our financial statements.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, " *Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock*" (Issue 07-05). This Issue provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. Issue 07-05 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under paragraphs 6-9 of Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," (SFAS 133) for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under paragraph 11(a) of SFAS 133. Issue 07-05 also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative under paragraphs 6-9 of SFAS 133, for purposes of determining whether the instrument is within the scope of EITF Issue 00-19, "*Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,* " (Issue 00-19) which provides accounting guidance for instruments that are indexed to, and potentially settled in, the issuer's own stock. Issue 07-05 is effective for fiscal years beginning after December 15, 2008. Early application is not permitted by entities that have previously adopted an alternative accounting policy.

3. Fair Value

In September 2006, the FASB issued Statement No. 157, "*Fair Value Measurements,"* or SFAS No. 157. SFAS No. 157 establishes a standard framework for measuring fair value in generally accepted accounting principles, clarifies the definition of "fair value" within that framework, and expands disclosures about the use of fair value measurements. We adopted SFAS No. 157 in the first quarter of 2008 with regard to all financial assets and liabilities in our financial statements going forward, and, consistent with FASB Staff Position 157-2, *"Effective Date of FASB Statement No. 157,"* we have elected to adoption of SFAS No. 157 for non-financial assets and liabilities not recognized or disclosed at fair value on a recurring basis until the first quarter of 2009. The adoption of SFAS No. 157 had no material impact on our financial statements. The book value of our nonfinancial assets approximated their fair values at March 31, 2009.

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, defined by SFAS No. 157 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.

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.

The fair valued assets we hold that are generally included in this category are investment grade auction rate certificates and commercial paper where fair value is based on valuation methodologies such as models using observable market inputs, such as benchmark yields, reported trades, broker/dealer quotes, bids, offers and other reference data.

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.

We carry no investments classified as Level 2.

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

	Fair value measurements at March 31, 2009 using			
	March 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 3,567,108	$ 3,567,108	$ —	$ —
Liabilities:				
Fair value of warrant obligations	2,762,835	—	—	2,762,835

Note 4. Stockholders' Equity

During the first three months of 2009, the Company granted 196,000 options on shares of common stock to consultants as an incentive for these consultants' continued employment. The options vest in periods between issue date and one year. The Company valued these options using the Black-Scholes option pricing model using the following assumptions: exercise price of between $1.25 and $2.00, term of two years, volatility rate of 74% and discount rate of .74%. The total value of these options will be expensed over the vesting period. The Company began to record the expense related to these options in the first quarter of 2009.

Note 5. Change in Accounting Principle: Recharacterization of Warrants

In June 2008, the FASB ratified the consensus reached on Emerging Issues Task Force (EITF) Issue No. 07-05, "*Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock." (Issue 07-5).* Issue 07-05 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 under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities."*

We adopted Issue 07-05 as of January 1, 2009. As is discussed in Note 1 above, as of that date we had 8,547,762 warrants which were reassessed under Issue 07-05. 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 of FAS 133. 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 $6,578,293. At that date we also recorded a cumulative catch up adjustment of $284,327 to reduce the accumulated deficit and a $6,862,620 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 market from January 1, 2009 going forward resulting in the recognition of income or expense in our statement of operations for changes in their fair value. In the three months ended March 31, 2009 we recognized a gain from the change in the fair value of these warrant obligations of $3,815,458.

Note 6. Subsequent Events

There are no subsequent events to report for the three months ended March 31, 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ADVISEMENT

We urge you to read this entire Quarterly Report on Form 10-Q, including the" Risk Factors" section, the financial statements, and related notes included herein. As used in this Quarterly Report, unless the context otherwise requires, the words "we," "us,""our," "the Company," "Neuralstem" and "Registrant" refer to Neuralstem, Inc. Also, any reference to "common shares," "Common Stock," "common stock" or "Common Shares" refers to our $.01 par value common stock. The information contained herein is current as of the date of this Quarterly Report (March 31, 2009), unless another date is specified.

We prepare our interim financial statements in accordance with United States generally accepted accounting principles. Our financials and results of operation for the three month period ended March 31, 2009 are not necessarily indicative of our prospective financial condition and results of operations for the pending full fiscal year ending December 31, 2009. The interim financial statements presented in this Quarterly Report as well as other information relating to our company contained in this Quarterly Report should be read in conjunction and together with the reports, statements and information filed by us with the United States Securities and Exchange Commission ("SEC").

FORWARD LOOKING STATEMENTS

In this Quarterly Report we make a number of statements, referred to as "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 (the "Exchange Act"), which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. 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 use 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"* and other similar expressions.

When reading any forward-looking statement you should remain mindful that actual results or developments may vary substantially from those expected as 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 production, and the speed with which regulatory authorizations and product launches may be achieved;
- whether or not a market for our proposed product develops and, if a market develops, the rate at which it develops;
- our ability to successfully sell our products once developed;
- our ability to attract and retain qualified personnel to implement our growth strategies;
- our ability to develop sales, marketing, and distribution capabilities;
- our ability to obtain reimbursement from third party payers for the products that we intend to sell;
- the accuracy of our estimates and projections;
- our ability to fund our short-term and long-term financing needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the section of this report 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 report as well as our public filings with the SEC. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statements contained in this report or any other filing to reflect new events or circumstances unless and to the extent required by applicable law.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. 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 2009.
- *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 the first quarter of 2009 to 2008.
- *Liquidity and Capital Resources* - An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition including the credit quality of our investment portfolio and potential sources of liquidity.

The various sections of the 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 II, Item 1A of this Quarterly Report). Our actual results may differ materially.

OVERVIEW

Neuralstem is focused on the development and commercialization of treatments based on transplanting human neural stem cells.

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 four (4) issued patents and thirteen (13) 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 provides a competitive advantage and will facilitate the successful development and commercialization of products for use in the treatment of a wide array of neurodegenerative conditions and in regenerative repair of acute disease.

This 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.

All of our research efforts to date are at the level of basic research or in the pre-clinical stage of development. 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 February 20, 2009, the FDA provided us with specific comments, questions and recommendations for modification to the protocol submitted in our IND. The trial is currently on clinical hold. We are in the process of analyzing the notice and the FDA's comments and recommendations.

In addition to our core stem cell tissue based technology we have begun developing a small-molecule compound. The Company has performed preliminary *in vitro* and *in vivo* tests on the compound with regard to neurogenesis. Based on the results of these tests we have applied for a U.S. patent on the compound.

Technology

Our technology is the ability to isolate human neural stem cells from most areas of the developing human brain and spinal cord and our technology includes the ability to grow them into physiologically relevant human neurons of all types. Our two issued core patents entitled: (i) *Isolation, Propagation, and Directed Differentiation of Stem Cell from Embryonic and Adult Central Nervous System of Mammals* ; and (ii) *In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multi-potential CNS Stem Cell* contain claims which cover the process of deriving the cells and the cells created from such process.

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 from the human brain and spinal cord.

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.

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 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.

TRENDS & OUTLOOOK

Revenue: Our revenue was previously derived primarily from grant reimbursements and licensing fees. As our focus is now on pre-clinical work in anticipation of entering clinical trials in 2009, we are not concentrated on generating revenue.

Long-term, we anticipate that our revenue will be derived primarily from licensing fees and the sale of our cell therapy products. At present, we are in our pre-clinical stage of development and as a result, we cannot accurately predict when or if we will be able to produce a product for commercialization. Accordingly, we cannot accurately estimate if or when we will begin generating revenue from such sources.

Research & Development Expense: Our 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. The cost of our research and development personnel is the most significant category of expense. However, we also incur expenses with third parties, including license agreements, third-party contract services, sponsored research programs and consulting expenses.

We do not segregate research and development costs on a per project basis. Although we have different areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will continue to increase in the foreseeable future as we add personnel, expand our pre-clinical research (animal surgeries, manufacturing of cells, and in vitro characterization of cells which includes testing and cell quality control), begin clinical trial activities, increase our regulatory compliance capabilities, and ultimately begin manufacturing.

In 2006 we retained Quintiles, Inc. to assist with regulatory compliance, preparation of our first IND application, and patient enrollment for our first human trial. While recruitment for the trial cannot commence until we have received an FDA approved protocol, much of the infrastructure required must be developed and in place well in advance. For instance, we can begin to identify, contact, and educate prospective patients as well as the treatment community prior to commencing these trials.

The amount of monetary increases stemming from increased personnel and expenses as we move from pre-clinical to clinical stage is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics underdevelopment by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from commercializing products, partnering with others in the biotechnology industry, or licensing the technologies associated with these programs to third parties.

On December 18, 2008 we filed our IND with the FDA to begin a clinical trial to treat ALS or Lou Gehrig's Disease. On February 20, 2009, the FDA provided us with specific comments, questions and recommendations for modification to the protocol submitted in our IND. The trial is on clinical hold. We are in the process of analyzing the notice and the FDA's comments and recommendations. We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects, including clinical trials, and bring any proposed products to market. The use of human stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. The costs to complete such clinical trials could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. At a minimum, we estimate that a trial for an individual indication such as ALS will require at least 10 to 12 patients at an estimated cost of $100,000 per patient. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties evaluating the trial results. Any delay would increase the cost of that trial, which would harm our operating results. Due to these uncertainties, we cannot reasonably estimate the size, nature, nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent, we will receive cash inflows from resulting products.

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 pre-clinical to a clinical phase.

We anticipate G&A expenses related to our core business will increase at a slower rate than that of similar companies making such transition, due in large part to our outsourcing model.

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 2 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—our revenues, to date, has been derived primarily from providing services as a subcontractor under federal grant programs and licensing fees. 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.

Intangible and Long-Lived Assets—we follow SFAS No. 144, "*Accounting for Impairment of Disposal 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 period ended December 31, 2008 no impairment losses were recognized.

Accounting for Warrants – The Company has adopted the provisions of EITF 07-05, ″Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-05"). EITF 07-05 applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," 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 EITF 96-18, *"Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services."* 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.

Beginning in 2006, we adopted SFAS No. 123R "*Share Based Payment*" which superseded APB Opinion No. 25. SFAS No. 123R requires compensation costs related to share-based payment transactions to be recognized in the financial statements.

RESULTS OF OPERATIONS

Result of Operations – *First Quarter of 2009 Compared to First Quarter of 2008*

Our results of operations have varied significantly from year to year and quarter to quarter and may vary significantly in the future.

Revenue

The company did not have revenue for the three months ended March 31, 2009 and 2008, respectively.

	Three Months Ended March 31,	
	2009	2008
Revenue	$ --	$ --

We do not anticipate any revenues for 2009.

Operating Expenses

Operating expense totaled $2,912,044 and $2,295,769 for the three months ended March 31, 2009 and 2008, respectively.

	Three Months Ended March 31,	
	2009	2008
Operating expenses		
Research & development	$ 1,434,010	$ 1,198,843
General, selling & administrative expense	1,457,238	1,083,169
Depreciation and amortization	20,796	13,757
Total expense	$ 2,912,044	$ 2,295,769

Research and Development Expenses

Research and development expenses totaled $1,434,010 for the three months ended March 31, 2009 compared to $1,198,843 for the same period of 2008. The increase of $235,167 or 20% for the three months ended March 31, 2009 compared to the comparable period in 2008 was primarily attributable to the costs of completing the application to the FDA to move our tissue based products into clinical trials and other operating expenses.

General and Administrative Expenses

G&A expenses totaled $1,457,238 for the three months ended March 31, 2009 compared to $1,083,169 for the same period of 2008. The increase of $374,069 or 35% for the three months ended March 31, 2009 compared to the comparable period in 2008 was primarily attributable to increased litigation expenses and a $116,000 increase in stock-based compensation expense.

Depreciation and Amortization

Depreciation and amortization expenses totaled $20,796 for the three months ended March 31, 2009 compared to $13,757 for the same period of 2008. The increase of $7,039or 51% for the three months ended March 31, 2009 compared to the comparable period in 2008 was primarily attributable to fixed asset and patent filing fee additions over the past year.

Nonoperating Income

Nonoperating income totaled $3,817,722 and $21,317 for the three months ended March 31, 2009 and 2008, respectively.

	Three Months Ended March 31, 2009	2008
Nonoperating income:		
Interest income	$ 2,264	$ 21,317
Change on gain in fair value of warrants	3,815,458	-
Total nonoperating income	$ 3,817,722	$ 21,317

Interest Income

Interest income totaled $2,264 for the three months ended March 31, 2009 compared to $21,317 for the same period of 2008. The decrease of $19,053 for the three months ended March 31, 2009 compared to the comparable period in 2008 was attributable to lower cash balances and much reduced interest rates on short term savings.

Gain from change in fair value of warrants

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 long-term warrant liability of $6.6 million to recognize the fair value of such warrants. The fair value of these common stock purchase warrants declined to $2.8 million as of March 31, 2009 because of a decline in the stock price. We recognized a $3.8 million non-cash gain from the change in fair value of these warrants for the three months ended March 31, 2009.

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. Our currently monthly cash burn rate is approximately $500,000. In the next several months we expect the monthly burn rate to drop below $400,000. We anticipate that our available cash will be sufficient to finance most of our current activities for at least the next 9 months from March 31, 2009, although certain activities and related personnel may need to be reduced.

On December 18, 2008, we filed our first IND with the FDA. In the event the FDA approves our IND, we expect additional costs related to the trial this year of about $350,000. Assuming approval of the IND, we estimate that we will have sufficient cash and cash equivalents to finance our current operations, pre-clinical and clinical work for at least 9 months from March 31, 2009. We cannot assure you that public or private financing or grants will be available on acceptable terms, if at all. 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.

	Three Months Ended March 31,	
	2009	2008
Cash and cash equivalents	$ 3,567,108	$ 8,257,850
Net cash used in operating activities	$ (1,296,966)	$ (1,688,194)
Net cash used in investing activities	(39,205)	(31,630)
Net cash provided by financing activities	0	2,573,937

Total cash and cash equivalents was $3,567,108 and $8,257,850 for the three months ended March 31, 2009 and 2008, respectively. The decrease in our cash of $4,690,742or 57% for the three months ended March 31, 2009 compared to the comparable period in 2008 was primarily attributed to placement of our common equity of $2,573,937 in the first quarter of 2008, a reduction of $600,000 in amounts payable by the company in less than one year in the first quarter of 2008, an increase of $300,000 in short term financing by vendors, employees and other service providers in the first quarter of 2009. The Company also accelerated research and development spending in the first quarter of 2009 to prepare for clinical trials and experienced higher legal fees due to litigation.

Net Cash Used in Operating Activities

In our operating activities we used $1,296,966 for the three months ended March 31, 2009 compared to $1,688,194 for the same period of 2008. The decrease in our cash of $391,288 or 23% for the three months ended March 31, 2009 compared to the comparable period in 2008 was primarily attributable to placement of our common equity of $2,573,937 in the first quarter of 2008, a reduction of $600,000 in amounts payable by the company in less than one year in the first quarter of 2008, an increase of $300,000 in short term financing by vendors, employees and other service providers in the first quarter of 2009. The Company also accelerated research and development spending in the first quarter of 2009 to prepare for clinical trials and experienced higher legal fees due to litigation.

Net Cash Used in Investing Activities

In our investment activities we used $39,205 for the three months ended March 31, 2009 compared to $31,630 for the same period of 2008. The increase in our cash of $7,575 or 24% for the three months ended March 31, 2009 compared to the comparable period in 2008 was primarily attributable to an increase in our investment in property and equipment.

Net Cash Provided by Financing Activities

There was no cash provided by financing activities for the three months ended March 31, 2009 compared to $2,573,937 for the same period of 2008.

Listed below are key financing transactions entered into by us. Also, please refer to the section of this Quarterly Report entitled "*Recent Sale of Unregistered Securities*" for a further description of the following transactions:

- In March of 2006 we completed the private placement of $5,000,000 of our units consisting of: (i) one shares of common stock; (ii) one half class A warrant; and (iii) one half class B warrant. The units were priced at $1.00.
- In March of 2007 we completed the private placement of $6,135,000 of our units consisting of: (i) one share of common stock; and (ii) one half class C warrant. The units were priced at $2.50.
- In October of 2007 warrant holders holding approximately 1,227,000 of our class C warrants exercised their warrants. As an inducement for the exercise, we issued those warrant holders who exercised their warrants a replacement class C warrant.
- In February of 2008, we sold a strategic purchaser $2,500,000 of our common stock.
- On December 18, 2008, we sold $2,000,000 of common stock pursuant to our shelf registration statement on Form S-3.

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 grants. We have a shelf registration statement which was declared effective on September 29, 2008 and covers up to approximately $25,000,000 of our securities that could be available for financings. On December 18, 2008, we filed a Prospectus Supplement announcing that we entered into a securities purchase agreement under which we sold $2,000,000 of common shares pursuant to such shelf registration. Accordingly, we may issue an additional $23,000,000 pursuant to the shelf registration statement.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Quarterly Reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of the date of this Quarterly 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. On October 1, 2008, Neuralstem filed a motion to dismiss or strike StemCells' state law trade libel and unfair competition claims. That motion is still pending and it is not known when nor on what basis will this matter 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.

  In October 2006, Neuralstem filed a motion to dismiss, or in the alternative for summary judgment, arguing that its preclinical research activities are covered under the "safe harbor" provision of 35 U.S.C. § 271(e)(1) (the "'safe harbor" defense'). The parties agreed to stay substantive discovery in the case pending resolution of Neuralstem's motion to dismiss based on the "safe harbor" defense. While limited discovery was on-going on the "safe harbor" defense, in response to submissions from Neuralstem, the Patent Office ordered reexamination of all four of the patents-in-suit owned by StemCells. In view of the reexamination proceedings, both parties agreed that a stay of the entire lawsuit was warranted. On June 25, 2007, Judge Alexander Williams, Jr. entered an order staying the entire litigation pending the outcome of the reexamination proceedings. It is not known when nor on what basis will this matter be concluded.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. We have described below a number of uncertainties and risks which, in addition to uncertainties and risks presented elsewhere in this Quarterly 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 Quarterly Report should be considered carefully in evaluating our company and our business and the value of our securities.

Risks Relating to Our Stage of Development

We have a limited operating history and have significantly shifted our operations and strategies since inception.

Since inception in 1996 and through December 31, 2008, we have raised $61,690,040 of capital and recorded accumulated losses totaling $57,486,795. On December 31, 2008, we had a working capital surplus of $3,774,078 and stockholders' equity of $4,203,245. Our net losses for the two most recent fiscal years have been $11,830,798 and $7,063,272 for 2008 and 2007 respectively. We had no revenues for the twelve months ended December 31, 2008.

Our ability to generate revenues and achieve profitability will depend upon our ability to complete the development of our proposed stem cell products, obtain the required regulatory approvals, manufacture, and market and sell our proposed products. In part because of our past operating results, no assurances can be given that we will be able to accomplish any of these goals.

Although we have generated some revenue in prior years, we have not generated any revenue from the commercial sale of our proposed stem cell products. Since inception, we have engaged in several related lines of business and have discontinued operations in certain areas. For example, in 2002, we lost a material contract with the Department of Defense and were forced to close our principal facility and lay off almost all of our employees in an attempt to focus our development strategy on stem cell technologies. This limited and changing history may not be adequate to enable you to fully assess our current ability to develop and commercialize our technologies and proposed products, obtain approval from the FDA, achieve market acceptance of our proposed products, and respond to competition. No assurances can be given as to exactly when, if at all, we will be able to fully develop, commercialize, market, sell and derive material revenues from our proposed products in development.

We will need to raise additional capital to continue operations.

Historically we have generated limited amounts of cash which are not sufficient to meet current or future operating or capital requirements. We have relied almost entirely on external financing to fund operations. Such financing has primarily come primarily from the sale of common stock, and the exercise of investor warrants. As of March 31, 2009, we had cash and cash equivalents on hand of $3,567,108 . Presently, we have a monthly cash burn rate of approximately $500,000. We will need to raise additional capital to fund anticipated operating expenses and future expansion. Among other things, external financing will be required to cover the further development of our technologies and products and general operating costs. On December 18, 2008, we filed our first IND to commence clinical trials on one of our proposed products. On February 20, 2009 we received notification from the FDA that our IND was on hold pending our submission of additional information and modifications to our IND. In the event the IND is approved, we expect additional cost related to the trials to be phased in slowly over the following 12 months.

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 funds to conduct research and development, establish and conduct clinical and pre-clinical trials, commercial-scale manufacturing arrangements and to provide for marketing and distribution. These funds may not be available on acceptable terms, if at all. If adequate funds are unavailable, we may have to delay, reduce the scope of, or eliminate one or more of our research, development or commercialization programs, which may materially harm our business, financial condition and results of operations.

Our long term capital requirements are expected to depend on many factors, including:

- the continued progress and cost of our research and development programs;
- the progress of pre-clinical studies and clinical trials;
- the time and costs involved in obtaining regulatory clearance;
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- the costs of developing sales, marketing and distribution channels and our ability to sell our products if developed;
- the costs involved in establishing manufacturing capabilities for commercial quantities of our proposed products;
- competing technological and market developments;
- market acceptance of our proposed products;
- the costs of recruiting and retaining employees and consultants; and
- the costs associated with educating and training physicians about our proposed products.

We may use resources more rapidly than currently anticipated, resulting in the need for additional funding. We cannot assure you that financing whether from external sources or related parties will be available if needed. If additional financing is not available when required or is not available on acceptable terms, we may not be unable to fund operations and planned growth, develop or enhance our technologies, take advantage of business opportunities or respond to competitive market pressures.

Additional financing requirements could result in dilution to existing stockholders.

We are not able to finance our operations through the sale of our products. Accordingly, we will be required to secure additional financing. If we are able to obtain such additional financing, it may be dilutive to current shareholders. We have authority to issue additional shares of common stock and preferred stock, or warrants which may be convertible into any one or more classes or series of capital stock. 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.

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 U.S. Patent and Trademark Office. 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 new litigation with StemCells, Inc. which is in its initial stages and any likely outcome is difficult to predict. For a further description of pending litigation, see Item 1. of Part II to the Quarterly Report entitled "*Legal Proceedings.*"

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. A number of our competitors are located in these countries and may be able to get access to 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 FDA 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. On December 18, 2008, we submitted its first IND, application to the FDA. We cannot assure you when or if such IND application will be granted, nor can we assure you that if the IND is granted, that we will successfully complete any clinical trials in connection with such IND. Further, we cannot yet accurately 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 cGTP, 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 Good Manufacturing Practices, or cGMP. Accordingly, we will need to enter into supply agreements with companies that manufacture these components to cGMP 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 will be materially and negatively impacted.

Risks Relating to Our Business

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

We have concentrated our research on stem cell technologies, and 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 the technologies, investors will likely lose their entire investment.

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.

On December 18, 2008, we submitted our first IND application to the FDA. On February 20, 2009, the FDA provided us with specific comments, questions and ecommendations for modification to the protocol submitted in our IND. The trial is on clinical hold. We are in the process of analyzing the notice and the FDA's comments and recommendations. Even if we eventually receive approval from the FDA to commence clinical trials, the outcome of pre-clinical, clinical and product testing of our products is uncertain. If we are unable to satisfactorily complete testing, or if such testing yields unsatisfactory results, we will be unable to commercially produce its proposed products. Before obtaining regulatory approvals for the commercial sale of any potential human products, our products will be subjected to extensive pre-clinical and clinical testing to demonstrate their safety and efficacy in humans. No assurances can be given that the clinical trials will demonstrate the safety and efficacy of such products at all, or to the extent necessary to obtain appropriate regulatory approvals, or that the testing of such products will be completed in a timely manner, if at all, or without significant increases in costs, program delays or both, all of which could harm our ability to generate revenues. In addition, our proposed products may not prove to be more effective for treating disease or injury than current therapies. Accordingly, we may have to delay or abandon efforts to research, develop or obtain regulatory approval to market its proposed products. Many companies involved in biotechnology research and development have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. The failure to adequately demonstrate the safety and efficacy of a therapeutic product under development could delay or prevent regulatory approval of the product and could harm our ability to generate revenues, operate profitably or produce any return on an investment.

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 clinical trials will succeed. Even if our product candidates achieve positive results in 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 proceeding 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 reputation in the industry and in the investment community would likely be significantly damaged, each of which would cause our stock price to decrease significantly.

The commencement of clinical testing of our potential product candidates may be delayed.

The commencement of clinical trials may be delayed for a variety of reasons, including:

- delays in demonstrating sufficient safety and efficacy in order to obtain regulatory approval to commence clinical trials;
- delays in reaching agreement on acceptable terms with contract research organizations and clinical trial sites;
- delays in manufacturing quantities of a product candidate sufficient for clinical trials;
- delays in obtaining approval of an IND from the FDA or similar foreign approvals;
- delays in obtaining institutional review board approval to conduct a clinical trial at a prospective site; and
- insufficient financial resources.

In addition, the commencement of clinical trials may be delayed due to insufficient patient enrollment, which is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites, the availability of effective treatments for the relevant disease, and the eligibility criteria for the clinical trial. Delays in the commencement of clinical testing of our product candidates could significantly increase our product development costs and delay product commercialization. In addition, many of the factors that may cause, or lead to, a delay in the commencement of clinical trials may also ultimately lead to a denial of regulatory approval of a product candidate.

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 if the clinical trials of any potential product candidate are successfully initiated and completed, we will be able to submit a Biologics License Application ("BLA") to the FDA or that any BLA we submit will be approved by the FDA 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 cell-based therapeutic products is novel, highly regulated, critical to our business, and dependent upon specialized key materials.

The manufacturing of 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 serious 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.

Ethical and other concerns surrounding the use of stem cells may negatively affect regulatory approval or public perception of our product candidates.

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. For a further description of pending litigation, see Item 1. of Part II to the Quarterly Report entitled "*Legal Proceedings.*"

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

Our ability to successfully commercialize certain proposed products in the human therapeutic field may depend 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. The Company 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. If we are unable to realize significant profits from our potential product candidates, its business would be materially harmed.

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 two key employees for our continued operations and future success.

The loss of either of our key executive officers, Richard Garr and Karl Johe, would be detrimental to us.

- We currently do not maintain "key person" life insurance on the life of Mr. Garr. As a result, the Company will not receive any compensation upon the death or incapacity of this key individual;

- We currently do maintain "key person" life insurance on the life of Mr. Johe. As a result, the Company will receive approximately $1,000,000 in the event of his death or incapacity.

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 failure to attract and retain such personnel or to develop such expertise would adversely affect 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 $1,230,000 per contract and the immediate vesting of all outstanding options and/or warrants held by Messrs. Garr and Johe.

We have no product liability insurance, which may leave us vulnerable to future claims that we will be unable to satisfy.

The testing, manufacturing, marketing and sale of human therapeutic products entails an inherent risk of product liability claims, and we cannot assure you that substantial product liability claims will not be asserted against us. We have no product liability insurance. In the event we are forced to expend significant funds on defending product liability actions, and in the event those funds come from operating capital, we will be required to reduce its business activities, which could lead to significant losses.

We cannot assure you that adequate insurance coverage will be available in the future on acceptable terms.

We have limited commercial insurance policies. Any significant claim would have a material adverse effect on its business, financial condition and results of operations. Insurance availability, coverage terms and pricing continue to vary with market conditions. We will endeavor to obtain appropriate insurance coverage for insurable risks that we identify. In the event a loss occurs that is not covered, depending on the size of such loss, it could materially affect our business plan or ability to operate.

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 enter into collaborations with third parties in order to further develop the technology and products. In the event we are not able to enter into such relationships in the future, our ability to 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. Also, we currently rely on third parties to assist us with a substantial portion of our research and development. Although our collaborative agreements do not impose any duties or obligations on us other than the licensing of our technology, the failure of any of these third parties may hinder our ability to develop products in a timely fashion.

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. We currently have an agreement with Charles River Laboratories International, Inc. ("Charles River") for the manufacturing and storage of our cells. In the event Charles River fails to provide suitable cells, we would be forced to either manufacture the cells ourselves or seek other third party vendors. 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.

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.

Risks Relating to Our Common Stock

Our common shares are sporadically or "thinly" traded.

Our common shares have historically been sporadically or "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-adverse 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 or non-existent, 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.

As a result of a recent accounting pronouncement, we may no longer meet the continued listing requirements of the NYSE AMEX.

Effective January 1, 2009, we adopted the provisions of EITF 07-5, ″Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). As a result, we reclassified 8,547,762 of our issued and outstanding common stock purchase warrants from equity to liability status. The adjustment also had the effect of reducing stockholder's equity by $2.8 million. Due to such adjustment, we may no longer meet the continued listing requirements of the NYSE AMEX with regard to stockholders equity. If the NYSE AMEX makes the determination that our common stock is no longer eligible for listing and is delisted, trading in our common stock may be conducted in the over-the-counter bulletin board or on the "pink sheets." In such event, broker-dealers may be less willing or able to sell and/or make a market in our common stock. Moreover, such markets have historically been less liquid than the NYSE AMEX. Accordingly, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, our common stock.

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 a seasoned issuer's. The volatility in our share price is attributable to a number of factors. First, our common shares are sporadically or thinly traded. 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-adverse 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. Additionally, in 2008 the SEC extended the compliance period for non-accredited filers with regard to Section 404(b). Unless further extended, we will be required to include attestation reports in our annual report for year ending on December 31, 2009. 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 March 31, 2009, we have issued and outstanding 33,751,300 common shares, 22,076,421 common shares reserved for issuance upon the exercise of current outstanding options and warrants (excluding options and warrants issued under our equity compensation plans), 423,341 common shares reserved for issuance of additional grants under our 2005 incentive stock plan, and 830,000 shares reserved for issuance of grants under our 2007 stock plan. Accordingly, we will be entitled to issue up to 92,918,938 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, 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned hereunto duly authorized.

NEURALSTEM, INC.

Date: May 15, 2009

/s/ I. Richard Garr
Chief Executive Officer

/s/ John Conron
Chief Financial Officer
(Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
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	*				

EXHIBIT 31.1

SECTION 302
CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, I Richard Garr, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of Neuralstem, Inc;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its unconsolidated investments, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2009

By: /s/ *I. Richard Garr*
I. Richard Garr, Chief Executive Officer

EXHIBIT 31.2

SECTION 302
CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, John Conron, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of Neuralstem, Inc;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its unconsolidated investments, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2009

By: /s/ *John Conron*
John Conron, Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AND EXCHANGE ACT RULES 13a-14(b) AND 15d-14(b) (Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report of Neuralstem, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, I. Richard Garr, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

/s/ *I. Richard Garr*
I. Richard Garr
Chief Executive Officer
Neuralstem, Inc

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AND EXCHANGE ACT RULES 13a-14(b) AND 15d-14(b) (Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report of Neuralstem, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Conron, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

/s/ *John Conron*
John Conron
Chief Financial Officer
(Principal Financial Officer)
Neuralstem, Inc.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.