

VIACELL INC
Form S-1
April 05, 2004

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As filed with the Securities and Exchange Commission on April 5, 2004

Registration No. -

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

VIACELL, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

8731
(Primary SIC Code Number)

04-3244816
*(I.R.S. Employer
Identification No.)*

131 Clarendon Street
Boston, MA 02116
(617) 603-4600
*(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)*

Marc D. Beer
President and Chief Executive Officer
131 Clarendon Street
Boston, MA 02116
(617) 603-4600
*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|---|---|-----------------------------------|
| Common Stock, \$0.01 par value per share | \$92,000,000 | \$11,657(2) |

- (1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
- (2) We previously paid filing fees of \$10,580 in connection with the Registration Statement on Form S-1 (file no. 333-81650) initially filed on January 30, 2002, relating to the registration of \$115,000,000 of securities (\$115,000,000 of which remain unsold as of the date hereof, which unsold securities were withdrawn from registration). The filing fee related to such unsold securities was \$10,580. Pursuant to rule 457(p) of the Securities Act of 1933, as amended, we are offsetting \$10,580 of the filing fee against the filing fee of \$11,657 due in connection with the filing of this Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 5, 2004

Shares

VIACELL

Common Stock

Prior to the offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$ and \$ per share. We are applying to have our common stock approved for quotation on the Nasdaq National Market under the symbol VIAC.

The underwriters have an option to purchase a maximum of additional shares to cover over-allotments of shares

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

| | Price to Public | Underwriting Discounts and Commissions | Proceeds to ViaCell |
|-----------|--------------------|--|------------------------|
| Per Share | \$ | \$ | \$ |
| Total | \$ | \$ | \$ |

Delivery of the shares of common stock will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

Credit Suisse First Boston

UBS Investment Bank

Lazard

Leerink Swann & Company

The date of this prospectus is , 2004

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You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document is only accurate as of the date of this document.

Dealer Prospectus Delivery Obligations

Until _____, 2004, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter with

respect to unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

As used in this prospectus, references to we, our, us and ViaCell refer to ViaCell, Inc. and its subsidiaries, unless the context requires otherwise.

You should read the following summary together with the entire prospectus, including the more detailed information in our financial statements and related notes appearing in the back of this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors.

Our Business

ViaCell, Inc. is a global biotechnology company engaged in sourcing, developing and commercializing cellular therapies to address cancer, infertility, and certain genetic and cardiac diseases. ViaCell's mission is to enable the widespread application of human cells as medical therapy. Cellular therapy already has a significant role in the treatment of human disease. For example, in 2002, over 45,000 bone marrow and other hematopoietic (blood) stem cell transplant procedures were performed worldwide. Researchers generally acknowledge the far-reaching potential of stem cells to treat many serious diseases that currently afflict an estimated 50 million Americans. However, the potential of cellular therapy has been largely unrealized. Current sources of stem cells are difficult to harvest and typically yield a poorly characterized mixture of cells with an insufficient quantity of the therapeutic stem cells. In addition, compatible donors are often not found. We believe we have the infrastructure in place in research, sourcing, development, manufacturing and marketing, combined with proprietary technologies and strategic partnerships, to overcome these limitations. Our lead stem cell product candidate, CB001, is manufactured using one of our proprietary technologies which allows the isolation, purification and significant expansion of populations of stem cells. We believe this proprietary technology will enable the production of well defined cellular products in therapeutically useful quantities. We are developing CB001 for use in bone marrow and other hematopoietic stem cell transplants. We are further leveraging our infrastructure in cellular therapy to develop a pipeline of products for a range of unmet medical needs. Our current commercialized product is Viacord, a leading brand in the cryopreservation of umbilical cord blood stem cells, which are primarily used for pediatric bone marrow transplants. We intend to use umbilical cord blood, an abundant and non-controversial source of stem cells, as the source of material for our stem cell products, if successfully developed. In addition, we are developing a product intended to offer women the ability to preserve their fertility through the proprietary application of a naturally occurring sugar, which acts as a cryopreservative, to human oocytes (eggs).

While Viacord is currently available to donors and siblings primarily for use in pediatric transplantations, CB001 is designed to address the limitations of current stem cell therapies and thereby realize the full hematopoietic transplant market opportunity. CB001 has entered a Phase I/II clinical trial in older adolescents and adults. CB001 is a highly concentrated and purified population of stem cells for the treatment of patients with cancers and other serious diseases. We have designed CB001 to be used as a replacement for the bone marrow and other crude cell mixtures used in stem cell transplants as a current standard of care. We estimate that the approximately 45,000 hematopoietic stem cell transplants performed worldwide in 2002 correspond to a market size of roughly \$900 million. Many more patients needed transplants, but suitably compatible cells could not be found. We believe that CB001 will provide a more effective treatment with fewer side effects and faster recovery than current therapies and will enable this therapy to reach more patients in need. In December 2003, we entered into a license and collaboration agreement with Amgen under which we received a non-exclusive license to certain Amgen stem cell growth factors for use in developing and manufacturing cell therapy products, and Amgen received an option to collaborate with us on any product, including CB001, that incorporates an Amgen growth factor or technology. In conjunction with this license and collaboration agreement, Amgen made a \$20 million equity investment in us.

We have built our initial commercial organization in the area of reproductive health. Our Viacord customers are expectant parents who have entrusted us with their child's umbilical cord blood, which we process into a cellular therapeutic and cryopreserve for potential future use by that child or a sibling.

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ViaCell Reproductive Health markets Viacord and is one of the leaders in this emerging industry, with an estimated 40% market share in 2003 based on revenues. We generated \$30.9 million in sales in 2003 from cord blood processing and storage, an increase of 54% over 2002. We offer our customers, who have preserved their child's own cord blood, a higher probability of obtaining suitable stem cells for transplant. In addition, we intend to commercialize our oocyte product within the next two years as the second product within our ViaCell Reproductive Health franchise. We have a relationship with Genzyme that includes financial support, as a repeated investor in our preferred stock, and marketing support in the area of ViaCell Reproductive Health. Genzyme has made several equity investments in our company, purchasing \$5.0 million worth of our preferred stock in three investments from 2001 to 2003. Genzyme Genetics has engaged its 80 genetic counselors to educate their patients who have received confirmatory genetic screening about our Viacord product, when appropriate and approved by the patient's physician, including distributing educational materials.

Our Opportunity

We believe that cellular therapy has significant potential for treating a wide variety of human diseases. Stem cells are rare cells whose inherent therapeutic value lies in their ability to produce both additional stem cells as well as differentiated cells, which are cells performing a specific function. Stem cell therapy involves the use of living cells to replace and initiate the production of other cells that are missing or damaged due to disease or injury. Today, stem cell therapy is limited to the use of hematopoietic stem cells to regenerate healthy, functioning bone marrow to maintain the blood and immune system. Despite the potential of stem cells to treat and cure disease, only a minority of patients who could benefit from hematopoietic stem cell therapy receive this form of treatment and the application of stem cell therapy to treat other diseases is as yet unrealized. The widespread use of stem cell therapy is limited by a lack of compatible stem cells, difficulties in collecting stem cells, an insufficient number of stem cells and variability in quality and composition of stem cell mixtures. In addition to stem cell therapy, we also believe other cells can benefit patients, including oocytes in the area of reproductive health for the purpose of enabling fertility preservation. We believe we have the infrastructure and technology to address and expand the current stem cell therapeutic market and develop stem cell therapies for many other significant applications.

Our Infrastructure

We have assembled a global organization with an infrastructure in place in all areas necessary for our operations. We have capabilities in research, sourcing, development, manufacturing and marketing. These capabilities include a 75-person sales and marketing force and a 12,000 square foot manufacturing, storage and cell processing facility. Our organization is supported by a seasoned management team with experience in the development, regulatory approval and commercialization of biologics and a world class scientific advisory board.

Our Technology

Our portfolio of technologies seeks to address the bottleneck that prevents the broad use of stem cell therapies, namely the inability to manufacture, in a robust manner, highly pure and potent pharmaceutical grade cells in therapeutic quantities. One of our proprietary technologies, Selective Amplification, enables the expansion of stem cell populations by stimulating their growth while re-purifying them by removing differentiated cells. By repeating these growth and purification cycles, we are able to produce a greatly expanded, undifferentiated stem cell product, achieving up to 150-fold expansion, with an average of 70-fold, within a 14-day period. Transplant physicians generally believe that they can substantially reduce the time it takes for transplanted stem cells to engraft, or begin to grow and function following transplantation, by treating patients with a large quantity of stem cells. Furthermore, we believe that the increased purity and consistency of our expanded stem cell products will result in a more predictable clinical response, better patient care and the potential to manufacture and distribute cells as a standardized pharmaceutical product. While we believe that our technology is broadly applicable to stem cells from all

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sources, we currently use umbilical cord blood as our source of cells because it provides us with a rich supply of easily obtainable cells that can be immunologically matched to individual patients, while eliminating many of the limitations inherent with other sources of stem cells. Another of our proprietary technologies that seeks to address the current bottleneck in stem cell therapy is a proprietary type of stem cell called Unrestricted Somatic Stem Cells (USSCs), which are derived from umbilical cord blood and are capable of being extensively expanded. USSCs are stem cells that differentiate into many cell types *in vitro*, including fat, bone, cartilage and precursor neuronal cells. We believe that USSCs will be an important starting population to produce a variety of stem cell therapies.

Our Products

Hematopoietic stem cell transplants, normally referred to as bone marrow transplants, involve the introduction of healthy stem cells into the body in order to regenerate healthy, functioning bone marrow and immune cells. Bone marrow transplantation has been successfully employed in the treatment of diseases such as leukemia, aplastic anemia, lymphoma, neuroblastoma and genetic diseases since the 1960s. While the scope of stem cell therapy's potential application in these conventional procedures is broad, in practice its use is significantly limited due to an inability to find sufficient quantities of stem cells from compatible donors. Because of its high concentration and purity relative to conventional sources, we believe that CB001 will provide a more effective treatment with fewer side effects and faster recovery for patients following a hematopoietic stem cell transplant. The primary endpoint we hope to achieve in clinical trials of CB001 is rapid neutrophil, or infection-fighting white blood cell, recovery. Furthermore, we are leveraging our umbilical cord stem cell sourcing and manufacturing capabilities to develop product candidates for muscular dystrophy and cardiac disease. We are currently conducting pre-clinical studies for these indications with the expectation of filing applications for clinical trial authorizations for these product candidates in 2005 and 2006, respectively. We are conducting further research in the areas of islet transplantation for the treatment of diabetes and stem cell stimulation for stroke recovery.

Within our ViaCell Reproductive Health activities, our products and development programs encompass our umbilical cord blood preservation offering through our Viacord brand and our oocyte cryopreservation program. As information about the potential therapeutic value of stem cells has entered the mainstream, cord blood preservation has become a rapidly growing procedure in the field of obstetrics and gynecology. In the past decade, several private and public cord blood banks have been established to provide for the collection and preservation of umbilical cord blood cells. To date, we have facilitated collections at over 2,000 birthing centers in the United States and, as of February 2004, we had 47,000 customers. We estimate that, in 2003, 1.7% of the 4 million US birthing families chose to preserve their child's umbilical cord blood. Over the past three years, the number of customers in this industry has grown significantly. We believe that the total available target market could grow to 25% of US births, representing a domestic opportunity of approximately \$1.5 billion in revenue.

We intend to leverage our commercial and operational infrastructure by developing our second cell product in ViaCell Reproductive Health, for the preservation and storage of human oocytes. We have an exclusive, worldwide license to technology that allows us to cryopreserve oocytes by injecting them with a naturally occurring cryopreservative, which we believe will successfully protect the oocytes and extend a woman's fertility. We expect to commercialize this product in the United States and Europe within the next two years. We expect our target markets to include women choosing to extend their fertility and women undergoing cancer treatment. We estimate that the market for this product will exceed \$350 million in the United States within five years after launch. Both our cord blood preservation product and oocyte program make use of our sales and marketing presence in the reproductive health field and our expertise in the preservation of human cells.

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Our Strategy

We intend to use our existing assets in cell therapy and cell preservation to implement a business strategy having the following principal elements:

demonstrate the clinical benefit of and obtain approval for our lead stem cell product candidate, CB001;

leverage our technology to commercialize additional products to effectively treat and potentially cure patients with unmet clinical needs;

leverage the growth of ViaCell Reproductive Health to provide financial stability and create additional value;

continue to develop and grow areas of our business that are complementary to each other;

continue to build strategic business relationships; and

strategically in-license or acquire complementary products, technologies and businesses.

Risks Related to Our Business

We are an early stage company and our technology is unproven in human clinical studies. We are in the early stage of clinical development of an expanded stem cell product and have not applied for or received the regulatory approvals we will need to commercialize an expanded stem cell product. We have incurred substantial losses to date; at December 31, 2003 we had an accumulated deficit of \$128.7 million. While our revenue from umbilical cord blood preservation and storage has shown substantial growth in recent years, our costs in offering this product have also increased along with our therapeutic development costs, which we expect to increase in the near future. We were sued for infringing two patents relating to our Viacord umbilical cord stem cell cryopreservation business after we rejected the plaintiff's initial requests seeking a license arrangement because we believe that we do not infringe these patents and that they are invalid. We and several other defendants, representing a majority of the family cord blood preservation industry, were recently found by a jury to have willfully infringed these patents, and we can give no assurance as to the ultimate outcome of this action. You should carefully consider these and the other risks described under the heading "Risk Factors" before investing in our common stock.

Corporate Information

We were incorporated in Delaware in September 1994 under the name t. Breeders, Inc. In April 2000, we acquired Viacord, Inc. and changed our name to ViaCell, Inc. The address of our principal executive office is 131 Clarendon Street, Boston, Massachusetts 02116, and our telephone number is (617) 603-4600. Our website address is www.viacellinc.com. We do not incorporate the information on our website into this prospectus, and you should not consider it part of this prospectus.

ViaCell, Viacord, ViaCell Reproductive Health and the Viacord logo are trademarks of ViaCell, Inc. This prospectus also refers to trademarks and tradenames of other organizations.

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The following summary financial data should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations section included later in this prospectus, and our financial statements and related notes included in the back of this prospectus. We have derived the balance sheet data and the statements of operations data presented below from our audited financial statements, which are included in this prospectus and other audited financial statements.

We have presented pro forma net loss per share information to give effect to the assumed conversion of all outstanding shares of our convertible preferred stock into a total of 25,810,932 shares of common stock as of their original dates of issuance.

| | Year Ended December 31, | | | | |
|--|-------------------------|-------------|-------------|-------------|-------------|
| | 1999 | 2000 | 2001 | 2002 | 2003(1) |
| (in thousands, except share and per share data) | | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Revenues | \$ | \$ 2,394 | \$ 7,298 | \$ 20,375 | \$ 31,880 |
| Operating expenses: | | | | | |
| Cost of revenues(2) | | 991 | 3,070 | 5,877 | 10,399 |
| Research and development | 1,193 | 3,854 | 6,978 | 11,429 | 13,226 |
| Sales and marketing | | 2,177 | 9,349 | 16,578 | 20,959 |
| General and administrative | 1,034 | 3,879 | 7,086 | 10,920 | 15,222 |
| In-process technology(3) | | | 594 | 5,889 | 23,925 |
| Stock-based compensation(4) | | 196 | 4,490 | 6,464 | 3,232 |
| Total operating expenses | 2,227 | 11,097 | 31,567 | 57,157 | 86,963 |
| Operating loss | (2,227) | (8,703) | (24,269) | (36,782) | (55,083) |
| Interest income (expense), net | 90 | 991 | 2,136 | 744 | (385) |
| Income taxes | | | | | |
| Net loss | \$ (2,137) | \$ (7,712) | \$ (22,133) | \$ (36,038) | \$ (55,468) |
| Net loss attributable to common stockholders | \$ (2,692) | \$ (10,262) | \$ (28,753) | \$ (44,182) | \$ (64,884) |
| Net loss per common share, basic and diluted | \$ (2.05) | \$ (5.55) | \$ (12.22) | \$ (17.60) | \$ (24.63) |
| Weighted average shares used in computing net loss per common share, basic and diluted | 1,316,352 | 1,849,073 | 2,352,468 | 2,510,632 | 2,634,096 |
| Pro forma net loss per common share, basic and diluted | | | | | \$ (2.32) |
| Pro forma weighted average shares used in computing net loss per common share, basic and diluted | | | | | 23,865,902 |

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| | As of December 31, 2003 | | Pro Forma As Adjusted(6) |
|---|-------------------------|--------------|-----------------------------|
| | Actual | Pro Forma(5) | |
| (in thousands) | | | |
| Consolidated Balance Sheet Data: | | | |
| Cash, cash equivalents and investments | \$ 46,832 | 46,832 | |
| Working capital | 22,857 | 22,857 | |
| Total assets | 78,161 | 78,161 | |
| Long-term debt obligations, including current portion | 19,238 | 19,238 | |
| Redeemable convertible preferred stock | 162,141 | | |
| Total stockholders' equity (deficit) | (130,151) | 31,990 | |

- (1) We acquired Kourion Therapeutics in September 2003, and our financial results for the year ended December 31, 2003 include the results of Kourion Therapeutics' operations for the three months ended December 31, 2003. Had we included the results of Kourion Therapeutics' operations for the full fiscal year 2003, we would have reported additional revenues, operating expenses and net loss of \$0.6 million, \$2.8 million and \$2.1 million, respectively.
- (2) In 2003, we recorded a charge of \$3.3 million as an expense, included in cost of revenues expense to cover our exposure for royalty expenses to PharmaStem for the period from April 2000 through December 2003. This resulted from a jury verdict in October 2003 awarding PharmaStem a royalty of \$2.9 million on our cord blood banking revenues through October 29, 2003 based on a claim of patent infringement plus our accrual of 6.125% of subsequent revenues. We are currently in litigation with PharmaStem over this claim, which we believe to be without merit. We are waiting for the trial judge to render his opinion on the post-trial motions. The timing of this event is uncertain and beyond our control. The judge could uphold the jury verdict, overturn it, require a new trial or require further information before rendering his opinion. In the event that the judge upholds the jury verdict, we will consider lodging an appeal and continuing litigation.
- (3) In-process technology expense for the year ended December 31, 2003 included \$22.1 million, being the fair value of technology acquired in the purchase of Kourion Therapeutics, and \$1.8 million in respect of technology acquired from Amgen and GlaxoSmithKline. The expense in the years ended December 31, 2002 and 2001 represented the fair value of warrants related to technology licensed from Amgen of \$5.9 million and stock options granted to Genzyme for a research collaboration valued at \$0.6 million, respectively.
- (4) Stock-based compensation expense represents the amortization of the excess of the fair value on the date of grant of the stock underlying the options granted to employees over the exercise price and the expense related to options granted to nonemployees. Total stock-based compensation for employees and nonemployees was approximately \$4.5 million, \$6.5 million and \$3.2 million for the years ended December 31, 2001, 2002 and 2003, respectively.
- (5) Pro forma to give effect to the automatic conversion upon completion of this offering of our outstanding shares of convertible preferred stock into 25,810,932 shares of common stock.
- (6) Pro forma adjusted to give further effect to the sale of common stock in this offering, assuming a public offering price of \$ _____ per share, and our receipt of the net proceeds therefrom.

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RISK FACTORS

Before you invest in our common stock, you should understand the high degree of risk involved. You should consider carefully the following risks and other information in this prospectus, including the historical financial statements and related notes, before you decide to purchase shares of our common stock. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business

Our product candidates are at an early stage of development, and if we are not able to successfully develop and commercialize them, we may not generate sufficient revenues to continue our business operations.

Our product candidates are in the early stages of development. In particular, our lead stem cell product candidate, CB001, has only recently entered Phase I/II clinical trials, with no patient having been dosed to date. CB001 has not previously been studied in humans, and we have no safety or efficacy data on this product candidate yet. While stem cell therapy is an accepted medical procedure for the regeneration of the blood and immune systems for patients with cancer and other serious diseases—a procedure for which we are developing CB001—stem cell populations expanded using our Selective Amplification technology have not yet been shown to be safe or effective for such treatments. Additionally, there has been only limited use of stem cells in treating cardiac disease in clinical trial settings, and no use of such cells in treating muscular dystrophy, which are two additional indications we are targeting. As a result, there is substantial uncertainty about the effectiveness of CB001 for its target indication and about whether our programs targeting other indications will be successful.

We expect that none of our product candidates will be commercially available for at least two years, if at all. We will need to devote significant additional research and development, financial resources and personnel to develop commercially viable products and obtain regulatory approvals.

We may discover that manipulation of stem cells using Selective Amplification changes the biological characteristics of stem cells. For this or other reasons, therapeutic products developed with our stem cell expansion technology may fail to work as intended, even in areas where stem cell therapy is already in use. This may result from the failure of our products to:

properly engraft into the recipient's body in the desired manner;

provide the intended therapeutic benefits; or

achieve benefits that are better or equal to existing therapies.

While our Selective Amplification technology has shown successful results in preclinical research for certain diseases, those results were not obtained in humans and may not be indicative of results we may encounter in future preclinical studies or clinical trials. Since none of our product candidates have progressed past Phase I/II clinical trials, we cannot determine whether our preclinical testing methodologies are predictive of clinical safety or efficacy. As we obtain results from further preclinical or clinical trials, we may elect to discontinue or delay preclinical studies or clinical trials for certain product candidates in order to focus our resources on more promising product candidates. We may also change the indication being pursued for a particular product candidate or otherwise revise the development plan for that candidate. Moreover, product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical or initial clinical testing.

If our product candidates do not prove to be safe and efficacious in clinical trials, we will not obtain the required regulatory approvals for our technologies or product candidates. Even if we are successful in developing and gaining regulatory approval for CB001, we do not expect to obtain approval before 2007.

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We expect to continue to incur operating losses and may never become profitable.

We have generated operating losses since our inception, and we expect losses to increase for the next several years. As of December 31, 2003, we had cumulative net losses of approximately \$128.7 million. These losses have resulted principally from the costs of our research and development activities. We expect to make substantial expenditures to further develop and commercialize our product candidates and expect that our rate of spending will accelerate as a result of increased costs and expenses associated with clinical trials, submissions for regulatory approvals and potential commercialization of our products. Furthermore, we expect to make significant additional investments in our ViaCell Reproductive Health franchise. Although revenue from our umbilical cord blood preservation and storage products have grown significantly over the past several years, we may not be able to sustain this growth or Viacord's current level of revenues. Our ability to become profitable will depend on many factors, including our ability to establish the safety and efficacy of our product candidates, obtain necessary regulatory approvals and successfully commercialize products.

We and several other defendants, representing a majority of the industry, were recently found by a jury to have willfully infringed two patents relating to our Viacord umbilical cord stem cell cryopreservation business. If we are not able to have this verdict overturned, we could be permanently enjoined from further engaging in this business, which would result in the loss of the current source of almost all of our revenues, or we may be required to pay a royalty in an amount greater than the amount we are currently accruing.

We were sued for infringing two patents relating to our Viacord umbilical cord stem cell cryopreservation business after we rejected the plaintiff's initial requests seeking a license arrangement because we believe that we do not infringe these patents and that they are invalid. In October 2003, a jury ruled in this case before the United States District Court for the District of Delaware that we and the several other defendants, who represent a majority of the family cord blood preservation industry, willfully infringed two patents held by PharmaStem Therapeutics, Inc. relating to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood. These patents relate to our Viacord umbilical cord stem cell cryopreservation product, the current source of almost all of our revenues. We had revenues of approximately \$30.9 million in 2003 from Viacord sales. A judgment in the case was entered against us for approximately \$2.9 million relating to past infringement, based on 6.125% royalties on our revenue from the storage of umbilical cord blood since April 2000. We have accrued royalty expenses in an amount equal to 6.125% of our Viacord revenues since the verdict. Following the verdict in the trial, PharmaStem filed a motion to request that the court issue a permanent injunction against all of the defendants in the suit to enjoin our further conducting our business. In addition, as is permitted under patent law where there is a finding of willful infringement, PharmaStem has filed a motion requesting that the damages against us be increased up to three times the amount of the \$2.9 million award for past infringement and to include legal fees and interest, which the trial judge may do in his discretion. We and the other defendants have filed motions with the court to have the jury's verdict overturned as a matter of law and to have PharmaStem's requests for an injunction and for increased damages denied. We and the other defendants have also filed a motion to request that an injunction, if granted, be stayed pending appeal of the case. There is substantial doubt as to whether these efforts to overturn the jury's verdict will be successful, as in general courts are reluctant to overturn jury verdicts. In addition, in a majority of cases where a jury finds patent infringement, the court issues a permanent injunction. While we and the other defendants have filed for a stay of any injunction, there can be no assurance that such a motion would be granted. If the jury's verdict is not overturned and we are enjoined from further engaging in our umbilical cord stem cell cryopreservation business, we will not be able to conduct this business unless PharmaStem grants a license to us. In such event, PharmaStem would be under no legal obligation to grant us a license or to do so on economically reasonable terms. If we are unable to obtain a license, or to obtain a license on economically reasonable terms, we will not be able to further engage in our umbilical cord stem cell cryopreservation business. This would have a material adverse effect on our business, results of operations and financial condition, as we would no longer have access to the current source of almost all of our revenues. If we are able to obtain a license from

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PharmaStem, it may be at a royalty rate greater than the 6.125% that we are currently accruing. For a fuller discussion of the PharmaStem litigation, see the section entitled Business Legal Proceedings.

We may not be able to raise additional funds necessary to fund our operations.

As of December 31, 2003, we had approximately \$46.8 million in cash, cash equivalents and investments. In order to develop and bring our stem cell product candidates to market, we must commit substantial resources to costly and time-consuming research, preclinical testing and clinical trials. While we anticipate that our existing cash, cash equivalents and investments, together with the net proceeds of this offering, will be sufficient to fund our current operations for the next two to three years, we may need or want to raise additional funding sooner, particularly if our business or operations change in a manner that consume available resources more rapidly than we anticipate. We expect to attempt to raise additional funds well in advance of completely depleting our available funds.

Our future capital requirements will depend on many factors, including:

cash flows from our umbilical cord blood preservation activities;

the scope and results of our research and development programs and clinical trials;

the timing of and the costs involved in obtaining regulatory approvals;

the costs of building and operating our manufacturing facilities and our commercialization activities;

funds spent in connection with acquisitions of related technologies or businesses, including contingent payments that may be made in connection with our acquisition of Kourion Therapeutics;

the costs of maintaining, expanding and protecting our intellectual property portfolio, including litigation costs and liabilities;

our ability to establish and maintain collaborative arrangements and obtain milestones, royalties and other payments from collaborators; and

costs associated with expanding our ViaCell Reproductive Health franchise abroad.

We may seek additional funding through collaborative arrangements and public or private financings. Additional funding may not be available to us on acceptable terms, or at all. If we obtain additional capital through collaborative arrangements, these arrangements may require us to relinquish greater rights to our technologies or product candidates than we might otherwise have done. If we raise additional capital through the sale of equity, or securities convertible into equity, further dilution to our then existing stockholders will result. If we raise additional capital through the incurrence of debt, our business may be affected by the amount of leverage we incur, and our borrowings may subject us to restrictive covenants. If we are unable to obtain adequate financing on a timely basis, we may be required to delay, reduce the scope of or eliminate one or more of our programs, any of which could have a material adverse effect on our business.

We cannot market and sell CB001 or our other product candidates in the United States or in other countries if we fail to obtain the necessary regulatory approvals or licensure.

We cannot sell CB001, or other cellular product candidates, until regulatory agencies grant marketing approval, or licensure. The process of obtaining regulatory approval is lengthy, expensive and uncertain. It is likely to take three to five years or more to obtain the required regulatory approvals for our lead stem cell product candidate, CB001, or we may never gain necessary approvals. Any difficulties that we encounter in obtaining regulatory approval may have a substantial adverse impact on our operations and cause our stock price to decline significantly.

To obtain regulatory approvals in the United States for CB001, for instance, we must, among other requirements, complete carefully controlled and well-designed clinical trials sufficient to demonstrate to the US Food & Drug Administration, or FDA, that CB001 is safe, effective and potent for each disease for which we seek approval. Several factors could prevent completion or cause significant delay of these trials,

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including an inability to enroll the required number of patients or failure to demonstrate adequately that CB001 is safe, effective and potent for use in humans. Negative or inconclusive results from or adverse medical events during a clinical trial could cause the clinical trial to be repeated or a program to be terminated, even if other studies or trials relating to the program are successful. The FDA can place a clinical hold on a trial if, among other reasons, it finds that patients enrolled in the trial are or would be exposed to an unreasonable and significant risk of illness or injury. If safety concerns develop, we or the FDA could stop our trials before completion. The FDA has relatively little experience with therapeutics based on cellular medicine. As a result, the pathway to regulatory approval for CB001 may be more complex and lengthy than for approval of a new conventional drug. Similarly, to obtain approval to market our stem cell products outside of the United States, we will need to submit clinical data concerning our products and receive regulatory approval from governmental agencies, which in certain countries includes approval of the price we intend to charge for our product. We may encounter delays or rejections if changes occur in regulatory agency policies during the period in which we develop a product candidate or during the period required for review of any application for regulatory agency approval. If we are not able to obtain regulatory approvals for use of CB001 or other products under development, we will not be able to commercialize such products, and therefore may not be able to generate sufficient revenues to support our business.

Our cell preservation activities are subject to regulations that may impose significant costs and restrictions on us.

Cord blood preservation. Our Viacord cord blood preservation product is currently subject to FDA regulations requiring infectious disease testing. We have registered with the FDA as a cord blood preservation service, listed our products with the FDA, and we are subject to FDA inspection. In addition, the FDA has proposed new good tissue practice (GTP) regulations that would establish a comprehensive regulatory program for human cellular and tissue-based products as well as proposed rules for donor suitability. We believe that we comply with existing regulatory requirements and would be in compliance with the new GTP regulations as currently proposed. However, we may not be able to maintain this compliance or comply with future regulatory requirements that may be imposed on us, including product standards that may be developed. Moreover, the cost of compliance with government regulations may adversely affect our revenue and profitability. Regulation of our cord blood preservation services in foreign jurisdictions is still evolving.

Consistent with industry practice, the Viacord cord blood collection kits have not been cleared as a medical device. The FDA could at any time require us to obtain medical device premarket application (PMA) approval or 510(k) clearance for the collection kits, or new drug application supplement (sNDA) approval for a drug component of the kits. Securing any necessary medical device 510(k) clearance or PMA approval for the cord blood collection kits, or sNDA approval for a drug component of the kits, may involve the submission of a substantial volume of data and may require a lengthy substantive review. The FDA also could require that we cease distributing the collection kits and require us to obtain medical device 510(k) clearance or PMA approval for the kits or sNDA approval of a drug component of the kits prior to further distribution of the kits.

Of the states in which we provide cord blood banking services, only New Jersey, New York and, recently, Maryland require that cord blood banks be licensed. We are currently licensed to operate in New Jersey and New York, and we have applied for our license in Maryland. If other states adopt requirements for the licensing of cord blood preservation services, we would have to obtain licenses to continue providing services in those states.

Oocyte cryopreservation. There are no established precedents for US and international regulation of oocyte cryopreservation. We anticipate that in the United States cryopreservation of oocytes will be regulated similarly to Viacord's family umbilical cord blood cryopreservation product. We also anticipate that some of the components used in this product will be regulated as medical devices under a 510(k) clearance mechanism. Thus, although we currently anticipate that clinical trials establishing safety

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and efficacy are not required for commercialization, we cannot assure that this is or would remain the case. The FDA could at any time determine, for instance, that:

cryopreservation of oocytes requires biologic marketing approval, entailing an Investigational New Drug (IND) application to conduct clinical trials and extensive clinical and nonclinical data and a biologics license application (BLA) for market approval; and/or

components used to cryopreserve the oocytes require PMAs.

Either scenario would substantially lengthen our planned developmental timeline for and substantially increase the costs of commercializing this service. We have not investigated the regulations for the cryopreservation of oocytes in foreign jurisdictions.

We depend on patents and other proprietary rights that may fail to protect our business.

Our success depends, in large part, on our ability to obtain and maintain intellectual property protection for our product candidates, technologies and trade secrets. We own or have exclusive licenses to seven US patents and two international patents. We also own or have exclusive licenses to 18 pending applications in the United States and 62 pending applications in foreign countries. Our pending patent applications may not issue and we may not receive any additional patents. The claims of our existing US patents and those that may issue in the future, or those licensed to us, may not offer significant protection of our Selective Amplification and other technologies. In addition, third parties may challenge, narrow, invalidate or circumvent our patents. The patent position of biotechnology companies is generally highly uncertain, involves complex legal and factual questions and has recently been the subject of much litigation. Neither the US Patent and Trademark Office nor the courts have a consistent policy regarding the breadth of claims allowed or the degree of protection afforded under many biotechnology patents.

Furthermore, our competitors may independently develop similar technologies or duplicate any technology developed by us in a manner that does not infringe our patents or other intellectual property. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our products can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantages of the patent.

In an effort to protect our unpatented proprietary technology, processes and know-how as trade secrets, we require our employees, consultants, collaborators and advisors to execute confidentiality agreements. These agreements, however, may not provide us with adequate protection against improper use or disclosure of confidential information. These agreements may be breached, and we may not have adequate remedies for any such breach. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants, collaborators or advisors have previous employment or consulting relationships. Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

CB001 and our other cellular product candidates represent new forms of therapy or products that the marketplace may not accept.

Even if we successfully develop and obtain regulatory approval for CB001 or other stem cell therapy products, the market may not accept them. Other than hematopoietic stem cell transplants, stem cell therapy is not currently a commonly used procedure. Similarly, our oocyte cryopreservation product candidate, if developed and approved for commercial use, may not be accepted by the market. Market demand for our products will depend primarily on acceptance by patients, physicians, medical centers and third party payers. Commercial acceptance will be dependent upon several factors, including:

the number and relative efficacy of products that compete with our product;

our ability to supply a sufficient amount of our product to meet demand;

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our ability to build and maintain, or access, through third parties, a capable sales force;

our ability to successfully fund launch costs; and

our ability to obtain insurance coverage and reimbursement for our product.

Our success will depend in part on establishing and maintaining effective strategic partnerships and collaborations.

A key aspect of our business strategy is to establish strategic relationships in order to gain access to technology and critical raw materials, to expand or complement our research, development or commercialization capabilities, or to reduce the cost of developing or commercializing products on our own. We currently have strategic relationships with Amgen, Gamete Technology and Massachusetts General Hospital. While we are currently in discussions with a number of companies, universities, research institutions, public cord blood banks and others to establish additional relationships and collaborations, we may not reach definitive agreements with any of them. Even if we enter into these arrangements, we may not be able to maintain these relationships or establish new ones in the future on acceptable terms. Furthermore, these arrangements may require us to grant certain rights to third parties, including exclusive marketing rights to one or more products, or may have other terms that are burdensome to us, and may involve the acquisition of our securities. Our partners may decide to develop alternative technologies either on their own or in collaboration with others. If any of our partners terminate their relationship with us or fail to perform their obligations in a timely manner, the development or commercialization of our technology and potential products may be substantially delayed.

Third parties may own or control patents or patent applications that are infringed by our technologies or product candidates.

Our success depends in part on our not infringing other parties' patents and proprietary rights as well as not breaching any licenses relating to our technologies and product candidates. In the United States, patent applications filed in recent years are confidential for 18 months, while older applications are not published until the patent issues. As a result, there may be patents of which we are unaware, and avoiding patent infringement may be difficult. We may inadvertently infringe third-party patents or patent applications. These third parties could bring claims against us, our collaborators or our licensors that, even if resolved in our favor, could cause us to incur substantial expenses and, if resolved against us, could additionally cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, our collaborators or our licensors, we or they could be forced to stop or delay research, development, manufacturing or sales of any infringing product in the country or countries covered by the patent we infringe, unless we can obtain a license from the patent holder. Such a license may not be available on acceptable terms, or at all, particularly if the third party is developing or marketing a product competitive with the infringing product. Even if we, our collaborators or our licensors were able to obtain a license, the rights may be nonexclusive, which would give our competitors access to the same intellectual property. In addition, payments under such licenses would reduce the earnings otherwise attributable to the related products.

We also may be required to pay substantial damages to the patent holder in the event of an infringement. Under some circumstances in the US, these damages could be triple the actual damages the patent holder incurred. If we have supplied infringing products to third parties for marketing, or licensed third parties to manufacture, use or market infringing products, we may be obligated to indemnify these third parties for any damages they may be required to pay to the patent holder and for any losses the third parties may sustain themselves as the result of lost sales or damages paid to the patent holder.

In addition to the PharmaStem patent infringement which we are contesting, we are aware that PharmaStem owns additional patents in this cord blood preservation field. We are also aware of two patents relating to compositions of purified hematopoietic stem cells and their use in hematopoietic stem cell transplantation, which could impact our stem cell therapeutics business. We believe, based on advice of our patent counsel, that we do not infringe any valid claims of these two patents. We cannot assure you,

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however, that if we are sued on either of these patents we would prevail. Proving invalidity, in particular, is difficult since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. If we are found to infringe these patents and are not able to obtain a license, we may not be able to operate our business.

Any successful infringement action brought against us may also adversely affect marketing of the infringing product in other markets not covered by the infringement action, as well as our marketing of other products based on similar technology. Furthermore, we may suffer adverse consequences from a successful infringement action against us even if the action is subsequently reversed on appeal, nullified through another action or resolved by settlement with the patent holder. The damages or other remedies awarded, if any, may be significant. As a result, any infringement action against us would likely delay the regulatory approval process, harm our competitive position, be very costly and require significant time and attention of our key management and technical personnel.

We may be involved in lawsuits to protect or enforce our patents or the patents of our collaborators or licensors, which could be expensive and time consuming.

Competitors may infringe our patents or the patents of our collaborators or licensors. Although we have not needed to take such action to date, we may be required to file infringement claims to counter infringement or unauthorized use. This can be expensive, particularly for a company of our size, and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover its technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference proceedings brought by the US Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications or those of our collaborators or licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction to our management. We may not be able, alone or with our collaborators and licensors, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

In order to commercialize CB001 or other product candidates using our Selective Amplification technology, we will need to obtain license rights to third party patents, which may not be available to us on reasonable terms, or at all.

Some aspects of our Selective Amplification technology involve the use of antibodies, growth factors and other reagents that are, in certain cases, the subject of third party patent rights. To date, we have obtained patent licenses to use some, but not all, of these reagents for commercial manufacturing purposes. Before we commercialize any product, including CB001, utilizing this technology, we may need to obtain license rights to third party patents or redesign our Selective Amplification process to use reagents not covered by these patents. If we are not able to obtain these rights on reasonable terms or redesign our Selective Amplification process to use reagents not covered by these patents, we may not be able to commercialize any products, including CB001.

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The successful commercialization of CB001, or any of our other potential products, will depend on obtaining reimbursement for use of this product from third party payers.

If we successfully develop and obtain necessary regulatory approvals, we intend to sell our lead product CB001 initially in the United States and the European Union. In the United States, the market for every pharmaceutical product is affected by the availability of reimbursement from third party payers such as government health administration authorities, private health insurers, health maintenance organizations and pharmacy benefit management companies. Third-party payers may deny coverage or offer inadequate levels of reimbursement for CB001 or any of our other potential products if they determine that the product has not received appropriate clearances from the FDA or other government regulators, is not used in accordance with cost-effective treatment methods as determined by the third-party payer or is experimental, unnecessary or inappropriate. In the countries of the European Union and in some other countries, the pricing of prescription pharmaceutical products and services and the level of government reimbursement are subject to governmental control.

Both federal and state governments in the United States and foreign governments in other countries continue to propose and pass legislation designed to contain or reduce the cost of health care. Cost control initiatives could decrease the price that we receive for any product we may develop in the future. In addition, third-party payers are increasingly challenging the price and cost-effectiveness of medical products and services and any of our potential products may ultimately not be considered cost-effective by these payers. Any of these initiatives or developments could materially harm our business.

In the absence of reimbursement by the government or third party insurers, the market for a product, such as CB001, will be limited. Third party payers may not reimburse sales of the product or enable us or our partners to sell the product at prices that will provide a sustainable and profitable revenue stream.

We have only limited experience manufacturing cell therapy products in connection with our preclinical and clinical work to date, and we may not be able to manufacture our products in quantities sufficient for later stage clinical studies or for commercial scale.

We currently produce limited quantities of stem cells using our Selective Amplification and USSC technologies. We have not built commercial scale manufacturing facilities for products and have no experience in manufacturing cellular products in the volumes that will be required for later stage clinical studies or commercialization. The manufacture of biological products in large quantities involves highly technical and complicated processes. If we successfully obtain marketing approval for any products, we may not be able to produce sufficient quantities of our products at an acceptable cost. In addition, we may encounter difficulties in production due to, among other things, quality control, quality assurance and component supply. These difficulties could reduce sales of our products, increase our cost or cause production delays, all of which could damage our reputation and hurt our profitability.

We are dependent on single source suppliers for certain components of our product candidates, the loss of which may limit our ability to manufacture our stem cell therapy products.

Certain antibodies, growth factors and other reagents are critical components used in our stem cell production process. Some of these components are supplied to us by Amgen and GlaxoSmithKline. We are materially dependent on these single source suppliers for such components. Other components, such as research grade materials that are suitable for production of stem cells used for research and in Phase I human clinical studies, are purchased as catalog products from vendors with which we do not have relationships. We depend on our suppliers to perform their obligations in a timely manner and in accordance with applicable government regulations. In the event that any of these suppliers becomes unwilling or unable to continue to supply necessary components for the manufacture of our stem cell products and we are unable to find substitute suppliers for these components, or to do so on commercially reasonable terms, we may not be able to complete development of or market our stem cells products.

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Our products must be manufactured using components made to a certain standard, and we may have difficulty finding sources of these components made to this standard.

In order to produce cells for use in clinical studies and produce stem cell products for commercial sale, certain biological components used in our production process will need to be manufactured in compliance with current Good Manufacturing Practices, or cGMP. To meet this requirement, we will need to enter into supply agreements with firms who manufacture these components to cGMP standards and, in some cases, we will need to obtain licenses to use these components in our commercial production process. We are currently in discussions with multiple firms who we may engage as suppliers and/or licensors for these components. Once we engage these third parties, we may be materially dependent on them for supply of cGMP grade components. If we are unable to obtain cGMP grade biological components for our products, we may not be able to market our stem cell products.

Our manufacturing facilities may be damaged or destroyed, resulting in an interruption of our product development and our ability to commercialize our stem cell therapy products.

We have a manufacturing facility located in Worcester, Massachusetts that is capable of producing stem cells for Phase I and II clinical trials and another specialized manufacturing facility in Langenfeld, Germany. We plan to build out a facility in Cambridge, Massachusetts beginning in the second half of 2004 that is capable of producing stem cells for Phase II and III clinical trials and initial commercialization. For the next several years, we expect to manufacture all of our stem cell products in one or more of these facilities. If any of these facilities or the equipment in the facilities is significantly damaged or destroyed, we may not be able to quickly or inexpensively replace our manufacturing capacity. We may not have sufficient insurance to cover any losses we incur as a result of such damage or destruction. We may be able to transfer manufacturing to a third party, but the shift would likely be expensive, and the timing would depend on availability of third party resources and the speed with which we could have a new facility approved by the FDA.

If we are not able to recruit and retain qualified management and scientific personnel, we may fail in developing our technologies and product candidates.

Our success is highly dependent on the retention of the principal members of our scientific, management and sales personnel. Marc D. Beer, our President and Chief Executive Officer, is critical to our ability to execute our overall business strategy. Morey Kraus, our Chief Technology Officer and co-founder, is a co-inventor of our Selective Amplification technology and has significant and unique expertise in stem cell expansion and related technologies. We maintain key man life insurance on the lives of Marc D. Beer and Morey Kraus. Additionally, we have several other scientific personnel that we consider important to the successful development of our technology. Although we are not aware that any of our key employees are currently planning to retire or leave the company, any key employee could terminate his or her relationship with us at any time and, despite any non-competition agreement with us, work for one of our competitors. Furthermore, our future growth will require hiring a significant number of qualified technical, commercial and administrative personnel. Accordingly, recruiting and retaining such personnel in the future will be critical to our success.

Although we have been successful recruiting and retaining key personnel in the past, there is intense competition from other companies, universities and other research institutions for qualified personnel in the areas of our activities. If we are not able to continue to attract and retain, on acceptable terms, the qualified personnel necessary for the continued development of our business, we may not be able to sustain our operations or achieve our business objectives.

We may face difficulties in managing and maintaining the growth of our business.

We expect to continue expanding our reproductive health services in the United States and to commence and expand these activities in Europe and other parts of the world. This expansion could put significant strain on our management, operational and financial resources. To manage future growth, we

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would need to hire, train and manage additional employees, particularly a specially-trained sales force. Within the next several years, we may also begin commercializing our oocyte cryopreservation technology. To do so, we would be required to institute significant additional and distinct sales and marketing, manufacturing and storage capacities. Concurrent with expanding our reproductive health activities, we will also be increasing our research and development activities, most significantly the clinical development of our lead product candidate, CB001, with the expectation of ultimately commercializing that product. As a private company, we have maintained a small financial and accounting staff. Our reporting obligations as a public company, as well as our need to comply with the requirements of the Sarbanes-Oxley Act of 2002, the rules and regulations of the Securities and Exchange Commission and the Nasdaq National Market, will place significant additional demands on our financial and accounting staff, on our financial, accounting and information systems and on our internal controls. We will need to add additional staff and continue to improve our financial, accounting and information systems and internal controls in order to fulfill our responsibilities as a public company and to support growth in our business. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our anticipated growth or management will be able to hire, train, retain, motivate and manage required personnel. Our failure to manage growth effectively could limit our ability to achieve our research and development and commercialization goals or to satisfy our reporting and other obligations as a public company.

If we acquire other businesses or technologies and are unable to integrate them successfully with our business, our financial performance could suffer.

If we are presented with appropriate opportunities, we may acquire other businesses. The integration process may produce unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business. Also, in any future acquisitions, we may issue shares of stock dilutive to existing stockholders, incur debt, assume contingent liabilities, or create additional expenses related to amortizing intangible assets, any of which might harm our financial results and cause our stock price to decline. Any financing we might need for future acquisitions may be available to us only on terms that restrict our business or impose costs that reduce our net income.

Our competitors may have greater resources or research and development capabilities than we have, and we may not have the resources necessary to successfully compete with them.

The pharmaceutical and biotechnology businesses are highly competitive. We compete with many organizations that are developing cell therapies for the treatment of a variety of human diseases, including companies such as Aastrom Biosciences, Cellerant, Gamida-Cell, Geron, Genzyme's Biosurgery division, Neuronix, Osiris Therapeutics and Stem Cells. We also face competition in the cell therapy field from academic institutions and governmental agencies. Some of these competitors, and future competitors, may have greater financial and human resources than we have, including more experience in research and development and more established sales, marketing and distribution capabilities. In private cord blood banking, we compete with companies such as Cbr Systems, Cryo-Cell International, CorCell and LifeBank USA (owned by Celgene Corporation). In oocyte preservation, we expect to compete with *in vitro* fertilization centers, including Florida Institute of Reproductive Health, Stanford University, the Jones Institute for Reproductive Medicine, and Egg Bank USA (through Advanced Fertility Clinic and Huntington Reproductive Center) and individual companies offering oocyte cryopreservation, including Extend Fertility. Current and future competitors in this field, too, may have greater financial and human resources than we have. We also anticipate this competition to increase in the future as new companies enter the stem cell therapy, cord blood preservation and oocyte preservation markets. In addition, the health care industry is characterized by rapid technological change, and new product introductions or other technological advancements could make some or all of our products obsolete.

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Due to the nature of our cell preservation activities, harm to our reputation could have a significant negative impact on our financial condition, and damage to or loss of our customers' property held in our custody could potentially result in significant legal liability.

Our cord blood preservation and our potential oocyte cryopreservation products, are and will be activities in which our reputation among clients and the medical and birthing services community will be extremely important to our commercial success. This is due in significant part to the nature of the product and service we provide. For instance, as part of our Viacord product, we are assuming custodial care of a child's umbilical cord blood tissue entrusted to us by the parents for potential future use as a therapeutic for the child or its siblings. We believe that our reputation enables us to market ourself as a premium provider of cord blood preservation among our competitors. While we seek to maintain high standards in all aspects of our provision of products and services, we cannot guarantee that we will not experience mishaps. Like family cord blood banks generally, we face the risk that a customer's cord blood unit could be lost or damaged while in transit from collection site to our storage facility, including while the unit is in the possession of third party commercial carriers used to transport the units. There is also risk of loss or damage to the unit during the preservation or storage process. Any such mishaps, particularly if publicized in the media or otherwise, could negatively impact our reputation, which could adversely affect our business and business prospects.

In addition to reputational damage, we face the risk of legal liability for loss of or damage to cord blood units. We do not own the cord blood units banked by our Viacord customers; instead, we act as custodian on behalf of the child-donor's guardian. Thus loss or damage to the units would be loss or damage to the customer's property, a potentially unique, and depending on the circumstances, perhaps irreplaceable potential therapeutic. Therefore, we cannot be sure to what extent, we could be found liable, in any given scenario, for damages suffered by an owner or donor as a result of harm or loss of a cord blood unit.

The manufacture and sale of stem cell products may expose us to product liability claims for which we could have substantial liability.

We face an inherent business risk of exposure to product liability claims if stem cell products produced using our technology are alleged or found to have caused injury. We may not be able to obtain insurance for such potential liability on acceptable terms with adequate coverage or may be excluded from coverage under the terms of an insurance policy that we obtain. We may not be able to maintain insurance on acceptable terms or at all. If we are unable to obtain insurance or any claims against us substantially exceed our coverage, then our business could be adversely impacted.

We face potential liability related to the privacy of health information we obtain from research collaborators or from providers who enroll patients and collect cord blood or human oocytes.

Our business relies on the acquisition, analysis, and storage of potentially sensitive information about individuals' health, both in our research activities and in our reproductive health product and service offerings. These data are protected by numerous federal and state privacy laws.

Most health care providers, including research collaborators from whom we obtain patient information, are subject to privacy regulations promulgated under the Health Insurance Portability and Accountability Act of 1996, or HIPAA ("Privacy Rule"). Although we ourselves are not directly regulated by the HIPAA Privacy Rule, we could face substantial criminal penalties if we knowingly receive individually identifiable health information from a health care provider who has not satisfied the HIPAA Privacy Rule's disclosure standards. In addition, certain state privacy laws and genetic testing laws may apply directly to our operations and impose restrictions on our use and dissemination of individuals' health information. Moreover, patients about whom we obtain information, as well as the providers who share this information with us, may have contractual rights that limit our ability to use and disclose the information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could

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result in adverse publicity that could harm our business. For a discussion of the HIPAA Privacy Rule and its relation to our business, see the section below entitled Business Government Regulation.

Ethical and other concerns surrounding the use of stem cell therapy may negatively affect regulatory approval or public perception of our products, thereby reducing demand for our products.

The use of embryonic stem cells for research and stem cell therapy has been the subject of debate regarding related ethical, legal and social issues. Although we do not currently use embryonic stem cells as a source for our research programs, the use of other types of human stem cells for therapy could give rise to similar ethical, legal and social issues as those associated with embryonic stem cells. The commercial success of our product candidates will depend in part on public acceptance of the use of stem cell therapy, in general, for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that stem cell therapy is unsafe, and stem cell therapy may not gain the acceptance of the public or the medical community. Adverse events in the field of stem cell therapy that may occur in the future also may result in greater governmental regulation of our product candidates and potential regulatory delays relating to the testing or approval of our product candidates. In the event that our research becomes the subject of adverse commentary or publicity, the market price for our common stock could be significantly harmed.

Our business involves the use of hazardous materials that could expose us to environmental and other liability.

We have facilities in Massachusetts, Kentucky, Singapore and Germany that are subject to various local, state and federal laws and regulations 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, including chemicals, micro-organisms and various radioactive compounds used in connection with our research and development activities. In the United States, these laws include the Occupational Safety and Health Act, the Toxic Test Substances Control Act and the Resource Conservation and Recovery Act. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards prescribed by these regulations, we cannot assure you that accidental contamination or injury to employees and third parties from these materials will not occur. We may not have adequate insurance to cover claims arising from our use and disposal of these hazardous substances.

Risks Related to This Offering

Purchasers in this offering will suffer immediate dilution.

If you purchase common stock in this offering, the value of your shares based upon our actual book value will immediately be less than the offering price you paid. This reduction in the value of your equity is known as dilution. Based upon the net tangible book value of our common stock at December 31, 2003, and assuming a public offering price of \$ per share, your shares will be worth \$ less per share than the price you paid in the offering. If options and warrants we have previously granted are exercised, additional dilution would occur. Please refer to the section entitled Dilution. Furthermore, if, after this offering, we raise additional funding by issuing more equity securities, the newly issued shares will further dilute the voting power of your investment on a percentage basis.

The sale of a substantial number of shares could cause the market price of our common stock to decline.

If we or our stockholders sell substantial amounts of our common stock in the public market after this offering, including shares issued upon the exercise of outstanding options and warrants, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. Please refer to the section entitled Shares Eligible for Future Sale.

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In addition, if registration rights that we have previously granted are exercised, then our stock price may be negatively affected. We have granted registration rights in connection with the issuance of our securities to a number of our stockholders and warrant holders. As of March 15, 2004, these registration rights covered 13,333 shares of our outstanding common stock, approximately 25.8 million shares of our common stock issuable upon the conversion of our outstanding preferred stock and up to an additional approximately 1.4 million shares of our common stock which may become issuable upon exercise of outstanding warrants. Furthermore, if this offering results in net proceeds to us of at least \$50 million at a public offering price per share of \$9.70 or higher, we will release and issue upon closing this offering 241,481 escrowed shares and 289,256 contingent shares, respectively, of common stock with registration rights to former shareholders of a company that we acquired. If this offering does not meet that net proceeds or offering price threshold, then we will, instead, issue warrants to existing investors in our Series J preferred stock to purchase up to 2,190,000 shares of common stock with registration rights. If any of these registration rights, or similar registration rights for securities we may issue in the future, are exercised by the holders, it could result in additional sales of our common stock in the market, which may have an adverse effect on our stock price.

All of our securityholders with registration rights have agreed not to exercise their registration rights without the prior written consent of both Credit Suisse First Boston LLC and UBS Securities LLC for a period of 180 days after the date of this prospectus.

An active public market for our common stock may not develop or be sustained after this offering, and our common stock may have a volatile public trading price which could fall below the initial public offering price. As a result, you could lose all or part of your investment.

Prior to this offering, our common stock did not trade in a public market. You may not be able to sell your shares quickly or at the market price if trading in our stock is not active.

We and the underwriters, through negotiations, determine the initial public offering price. The initial public offering price may bear no relationship to the price at which the common stock will trade following completion of this offering. Please refer to the section entitled **Underwriting** for more information regarding our arrangement with the underwriters and the factors considered in setting the initial public offering price.

The market prices for securities of companies comparable to us have been highly volatile, and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of the individual companies. Many factors may have a significant adverse effect on the market price of the common stock, including:

announcements regarding our product development programs;

actual or anticipated variations in quarterly operating results;

new products or services introduced or announced by us or our competitors;

changes in the market valuations of other similar companies;

sales of substantial amounts of our stock by existing stockholders;

announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments; and

additions or departures of key personnel.

In addition, in the past stockholders have initiated class action lawsuits against biotechnology and pharmaceutical companies following periods of volatility in the market prices of these companies' stock. In the future, our stockholders may pursue similar litigation against us. In general, decreases in our stock price would reduce the value of our stockholders' investments and could limit our ability to raise necessary capital or make acquisitions of assets or businesses. If a stockholder instituted litigation on this basis, it could result in substantial costs and would divert management's attention and resources.

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Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent new investors from influencing significant corporate decisions.

Upon completion of this offering, our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates will, in aggregate, beneficially own approximately % of our outstanding common stock or % if the underwriters exercise their over-allotment option in full. These persons, acting together, will be able to exercise significant influence over all matters requiring stockholder approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these persons, acting together, may have the ability to control the management and affairs of our company. This concentration of ownership may harm the market price of our common stock by delaying or preventing a change in control of our company at a premium price even if beneficial to our other stockholders. Please refer to the section entitled Principal Stockholders for additional information on the concentration of ownership of our common stock.

Provisions in our charter documents could prevent or frustrate any attempts to replace our current management by stockholders.

After the closing of this offering, our corporate charter and bylaws will contain provisions that could make it more difficult for a third party to acquire us without consent of our board of directors. Our charter will provide for a staggered board and removal of directors only for cause. Accordingly, stockholders may elect only a minority of our board at any annual meeting, which may have the effect of delaying or preventing changes in management. In addition, our charter will permit our board of directors to issue up to 5,000,000 shares of preferred stock and to determine the terms of those shares of stock without any further action by our stockholders. Our issuance of preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock and thereby effect a change in the composition of our board of directors. Our charter will also provide that our stockholders may not take action by written consent. Our bylaws will require advance notice of stockholder proposals and nominations, and permit only our chief executive officer, chairman, president or a majority of our board of directors to call a special stockholder meeting. These provisions may have the effect of preventing or hindering any attempts by our stockholders to replace our current management. In addition, Delaware law prohibits a corporation from engaging in a business combination with any holder of 15% or more of its capital stock until the holder has held the stock for three years unless, among other possibilities, the board of directors approves the transaction. The board may use this provision to prevent changes in our management. Also, under applicable Delaware law, our board of directors may adopt additional anti-takeover measures in the future. Please also refer to the section entitled Description of Capital Stock.

Our management has broad discretion over the use of proceeds from this offering and may invest or spend the proceeds in ways with which you may not agree and in ways that may not yield a return.

Our management will have broad discretion over the use of proceeds from this offering. You may not agree with management's decisions, and our use of the proceeds may not yield any return on your investment in us. The failure of our management to apply the net proceeds of this offering effectively could harm our business and financial condition.

We do not intend to pay cash dividends on our common stock in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Furthermore, we may become subject to contractual restrictions or prohibitions on the payment of dividends.

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Potential changes in accounting standards regarding stock option plans could limit the desirability of granting stock options, which could harm our ability to attract and retain employees, and could also negatively impact our results of operations.

The Financial Accounting Standards Board is considering whether to require all companies to treat the fair value of stock options granted to employees as an expense. The US Congress and other governmental and regulatory authorities have also considered requiring companies to expense stock options. If this change were to become mandatory, we and other companies could be required to record a compensation expense equal to the fair value of each stock option granted. Currently, we are generally not required to record compensation expense in connection with stock option grants. If we were required to expense the fair value of stock option grants, it would reduce the attractiveness of granting stock options because of the additional expense associated with these grants, which would negatively impact our results of operations. For example, had we been required to expense stock option grants by applying the measurement provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, our recorded net loss of \$64.9 million would have been increased by \$1.3 million, to a net loss of \$66.2 million for the year ended December 31, 2003. Nevertheless, stock options are an important employee recruitment and retention tool, and we may not be able to attract and retain key personnel if we reduce the scope of our employee stock option program. Accordingly, in the event we are required to expense stock option grants, our future results of operations would be negatively impacted, as would our ability to use stock options as an employee recruitment and retention tool.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, principally in the sections entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business. Generally, these statements can be identified by the use of phrases like believe, expect, anticipate, plan, may, will, could, estimate, potential, opportunity, future, project, and similar statements about:

the implementation of our corporate strategy;

our financial performance, including expectations for revenue growth from our cord blood preservation activities;

our ability to enter into future collaborations with pharmaceutical and biotechnology companies, academic institutions and others;

our product research and development activities and projected expenditures, including our anticipated timeline and clinical strategy for CB001 and other product candidates;

our spending of the proceeds from this offering;

our cash needs;

expected market sizes and growth;

the ability of our potential products to treat disease;

our plans for sales and marketing, including plans to expand our ViaCell Reproductive Health franchise in the United States and begin establishing these activities abroad;

the types of regulatory frameworks we expect will be applicable to our potential products, including cell therapy products and cord blood and oocyte collection and storage products and services;

timing of regulatory approvals;

results of our scientific research; and

the potential outcome and consequences of the PharmaStem litigation.

These forward-looking statements involve risks and uncertainties. Our actual results could differ significantly from the results discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in Risk Factors. You should carefully consider that information before you make an investment decision. You should not place undue reliance on our forward-looking statements. These forward-looking statements speak only as of the date of this document, and we undertake no obligation to update or revise these statements.

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USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately \$ million from the sale of the shares offered by us in this offering or \$ million if the underwriters exercise their over-allotment option in full, assuming a public offering price of \$ per share. Those net proceed amounts are what we expect to receive after paying underwriting discounts and commissions and our estimated offering expenses. We intend to use the net proceeds of this offering to fund the growth of our business and for:

conducting clinical trials;

preclinical research and development activities relating to our product candidates;

further expansion of our manufacturing capacity for our product candidates;

expansion of our commercial infrastructure in ViaCell Reproductive Health in the United States and beginning expansion internationally;

repayment of a \$14.0 million note issued as partial consideration in our acquisition of Kourion Therapeutics in 2003; and

general corporate purposes, including working capital needs, and potential acquisitions of technologies or businesses or the establishment of partnerships and collaborations complementary to our business.

The above-referenced promissory note matures on September 30, 2007, but under its terms we must repay the outstanding principal and accrued and unpaid interest concurrently with closing this offering. The full \$14.0 million of principal currently remains outstanding, and since its issuance on September 30, 2003, the note has accrued interest at a rate of 8% per annum. The note is held by several of our stockholders, which are funds affiliated with MPM Asset Management LLC, two affiliates of which are members of our board of directors.

Other than the immediate prepayment of the note, the amounts and timing of our actual use of proceeds will depend upon numerous factors, including cash flows from operations, the growth of our business and other factors described under Risk Factors. Also, although we periodically evaluate acquisition and licensing opportunities, we currently have no commitments or agreements with respect to any specific acquisition or license. As a result, we cannot specify with certainty the amounts that we may allocate to the particular uses of the net proceeds of this offering. Our management will have significant flexibility and discretion in applying the net proceeds of this offering. Pending any use, we will invest the net proceeds of this offering generally in short-term, investment grade, interest bearing securities but cannot predict that these investments will yield a favorable return.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the growth and development of our business. We do not intend to pay cash dividends on our common stock in the foreseeable future.

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The following table presents our cash, cash equivalents and short-term investments and our capitalization as of December 31, 2003:

on an actual basis; and

on a pro forma basis to give effect to the automatic conversion of all outstanding shares of our preferred stock into 25,810,932 shares of common stock; and

on a pro forma as adjusted basis to adjust the pro forma information to give effect to:

our sale of _____ shares of common stock in this offering at an assumed initial public offering price of \$ _____ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us;

repayment of our outstanding promissory note, consisting of \$14.0 million in principal and an aggregate of \$ _____ in interest payments, assuming _____ months of accruing interest since the issuance of the note on September 30, 2003; and

our release of 241,481 escrowed shares and issuance of 289,256 contingent shares of common stock to satisfy a contingent purchase price obligation to former shareholders of Kourion Therapeutics, which are due and issuable upon our closing an underwritten public offering, including this offering, if the sale price to the public is at least \$9.70 and the offering results in at least \$50 million in net proceeds.

You should read this table together with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

| | As of December 31, 2003 | | |
|--|-----------------------------------|-----------|--------------------------|
| | Actual | Pro Forma | Pro Forma as Adjusted |
| | (in thousands, except share data) | | |
| Cash, cash equivalents and short-term investments | 46,832 | 46,832 | |
| Long-term debt obligations, including current portion | 19,238 | 19,238 | |
| Redeemable convertible preferred stock, \$0.01 par value; 30,396,809 shares authorized; 25,869,556 shares issued and outstanding, actual; no shares issued or outstanding, pro forma and pro forma as adjusted | 162,141 | | |
| Stockholders' (deficit) equity: | | | |
| Convertible preferred stock, \$0.01 par value; 428,191 shares authorized; 182,857 shares issued and outstanding, actual; no shares issued or outstanding, pro forma and pro forma as adjusted | 2 | | |
| Common stock, \$0.01 par value; 80,000,000 shares authorized, actual; 100,000,000 shares authorized, pro forma and pro forma as adjusted; 2,659,854 shares issued and outstanding, actual; 28,712,267 shares issued and outstanding, pro forma, and shares issued and outstanding, pro forma as adjusted | 27 | 287 | |
| Additional paid-in capital | 1,437 | 163,320 | |
| Deferred compensation | (3,422) | (3,422) | |
| Accumulated deficit | (128,679) | (128,679) | |
| Accumulated other comprehensive income | 484 | 484 | |
| Total stockholders' equity (deficit) | (130,151) | 31,990 | |
| Total capitalization | 51,228 | 51,228 | |

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The share data in the table above does not include:

4,705,336 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2003 at a weighted average exercise price of \$2.13 per share;

850,000 and 560,000 shares of common stock issuable upon the exercise of warrants outstanding as of December 31, 2003, with exercise prices of \$1.50 and \$12.00 per share, respectively;

18,750 shares of our Series J preferred stock issuable upon the exercise of warrants outstanding as of December 31, 2003, each with an exercise price of \$8.00 per share; and

2,190,000 shares of common stock that will be issuable under warrants with a \$5.00 per share exercise price, which warrants are not currently outstanding and will be issued if and only if the price per share to the public in, or our net proceeds from, this offering are less than \$9.70 or \$50 million, respectively. If this offering equals or exceeds both the \$9.70 per share price and \$50 million net proceeds thresholds, this contingent warrant obligation will terminate, and the warrants will never be issued.

Table of Contents**DILUTION**

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock after this offering. Our net tangible book value as of December 31, 2003 was approximately \$ million, or \$ per share of common stock. Our pro forma net tangible book value as of December 31, 2003, after giving effect to the automatic conversion of all of our preferred stock outstanding as of that date into 25,810,932 shares of common stock and the release of 241,481 escrowed shares and issuance of 289,256 contingent shares of common stock to former Kourion Therapeutics shareholders as contingent purchase price consideration upon closing this offering if the price to the public is at least \$9.70 and net proceeds to us equal at least \$50 million, was approximately \$ million, or \$ per share of common stock. Net tangible book value per share is determined by dividing our total tangible assets less total liabilities by the number of shares of common stock outstanding at December 31, 2003. Our pro forma net tangible book value per share after this offering would have been \$ or \$ per share. This represents an immediate increase in pro forma net tangible book value of \$ per share to existing stockholders and an immediate dilution in pro forma net tangible book value of \$ per share to new investors. Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of our common stock immediately afterwards, after giving effect to the sale of shares in this offering at an assumed public offering price of \$ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. The following table illustrates this per share dilution:

| | |
|--|----|
| Net tangible book value per share before this offering | \$ |
| Change attributable to pro forma conversion of preferred stock | \$ |
| Pro forma net tangible book value per share before this offering | \$ |
| Assumed initial public offering price per share | \$ |
| Increase attributable to this offering | \$ |
| Pro forma net tangible book value per share after this offering | \$ |
| Dilution per share to new investors | \$ |

The following table summarizes, on a pro forma basis as of December 31, 2003, after giving effect to this offering and assuming a public offering price of \$ per share, the total number of shares of common stock purchased from us and the total consideration and the average price per share paid by existing shareholders and by new investors, calculated before deduction of underwriting discounts and commissions and estimated offering expenses.

| | Shares Purchased | | Total Consideration | | Average Price Per Share |
|---|------------------|---------|---------------------|---------|----------------------------|
| | Number | Percent | Amount | Percent | |
| Existing stockholders | | % | \$ | % | \$ |
| New investors | | | | | |
| Contingent shares to former Kourion Therapeutics shareholders | 289,256 | | | | |
| Total | | | | | |

The number of shares of common stock outstanding in the table above is based on the number of shares outstanding as of December 31, 2003 and excludes:

4,705,336 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2003 at a weighted average exercise price of \$2.13 per share;

850,000 and 560,000 shares of common stock issuable upon the exercise of warrants outstanding as of December 31, 2003, with exercise prices of \$1.50 and \$12.00 per share, respectively;

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18,750 shares of our Series J preferred stock issuable upon the exercise of warrants outstanding as of December 31, 2003, each with an exercise price of \$8.00 per share; and

2,190,000 shares of common stock that will be issuable under warrants with a \$5.00 per share exercise price, which warrants are not currently outstanding and will be issued if and only if the price per share to the public in, or our net proceeds from, this offering are less than \$9.70 or \$50 million, respectively.

To the extent warrants and outstanding options are exercised and the underlying shares are issued, there will be further dilution to new investors. If all outstanding options and warrants had been exercised as of December 31, 2003, net tangible book value per share after this offering would be \$ and total dilution per share to new investors would be \$. The above table assumes no exercise of the underwriters' over-allotment option.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

In the tables below, we provide you with our selected historical financial data. We have prepared this information using the consolidated financial statements for the five years ended December 31, 2003. The financial statements for the three years ended December 31, 2001, 2002 and 2003 have been audited by PricewaterhouseCoopers LLP, independent accountants. The financial statements for the two years ended December 31, 1999 and 2000 have been audited by Arthur Andersen LLP, independent public accountants.

When you read this summary historical financial data, it is important that you read along with it the consolidated financial statements and related notes to the financial statements appearing elsewhere in this prospectus and Management's Discussion and Analysis of Financial Condition and Results of Operations. Historical results are not necessarily indicative of the results that may be expected in the future.

We have presented pro forma net loss per share information to give effect to the assumed conversion of all outstanding shares of our convertible preferred stock into a total of 25,810,932 shares of common stock as of their original dates of issuance.

| | Year Ended December 31, | | | | |
|--|-------------------------|-------------|-------------|-------------|-------------|
| | 1999 | 2000 | 2001 | 2002 | 2003(1) |
| (in thousands, except share and per share data) | | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Revenues | \$ | \$ 2,394 | \$ 7,298 | \$ 20,375 | \$ 31,880 |
| Operating expenses: | | | | | |
| Cost of revenues(2) | | 991 | 3,070 | 5,877 | 10,399 |
| Research and development | 1,193 | 3,854 | 6,978 | 11,429 | 13,226 |
| Sales and marketing | | 2,177 | 9,349 | 16,578 | 20,959 |
| General and administrative | 1,034 | 3,879 | 7,086 | 10,920 | 15,222 |
| In-process technology(3) | | | 594 | 5,889 | 23,925 |
| Stock-based compensation(4) | | 196 | 4,490 | 6,464 | 3,232 |
| Total operating expenses | 2,227 | 11,097 | 31,567 | 57,157 | 86,963 |
| Operating loss | (2,227) | (8,703) | (24,269) | (36,782) | (55,083) |
| Interest income (expense), net | 90 | 991 | 2,136 | 744 | (385) |
| Net loss | \$ (2,137) | \$ (7,712) | \$ (22,133) | \$ (36,038) | \$ (55,468) |
| Net loss attributable to common stockholders | \$ (2,692) | \$ (10,262) | \$ (28,753) | \$ (44,182) | \$ (64,884) |
| Net loss per common share, basic and diluted | \$ (2.05) | \$ (5.55) | \$ (12.22) | \$ (17.60) | \$ (24.63) |
| Weighted average shares used in computing net loss per common share, basic and diluted | 1,316,352 | 1,849,073 | 2,352,468 | 2,510,632 | 2,634,096 |
| Pro forma net loss per common share, basic and diluted | | | | | \$ (2.32) |
| Pro forma weighted average shares used in computing net loss per common share, basic and diluted | | | | | 23,865,902 |

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As of December 31,

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|----------|-----------|-----------|-----------|-----------|
| (in thousands) | | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash, cash equivalents and investments | \$ 4,615 | \$ 55,287 | \$ 53,787 | \$ 29,188 | \$ 46,832 |
| Working capital | 3,640 | 53,144 | 46,062 | 25,407 | 22,857 |
| Total assets | 4,974 | 67,775 | 70,981 | 56,119 | 78,161 |
| Long-term debt obligations, including current portion | 312 | 656 | 1,586 | 5,173 | 19,238 |
| Redeemable convertible preferred stock | 9,947 | 79,727 | 101,268 | 110,912 | 162,141 |
| Total stockholders equity (deficit) | (5,484) | (15,376) | (38,749) | (70,487) | (130,151) |

- (1) We acquired Kourion Therapeutics in September 2003, and our financial results for the year ended December 31, 2003 include the results of Kourion Therapeutics operations for the three months ended December 31, 2003. Had we included the results of Kourion Therapeutics operations for the full fiscal year 2003, we would have reported additional revenues, operating expenses and net loss of \$0.6 million, \$2.8 million and \$2.1 million, respectively.
- (2) In 2003 we recorded a charge of \$3.3 million as an expense, included in cost of revenue expense to cover our exposure for royalty expenses to PharmaStem for the period from April 2000 through December 2003. This resulted from a jury verdict in October 2003 awarding PharmaStem a royalty of \$2.9 million on our cord blood banking revenues through October 29, 2003 based on a claim of patent infringement plus our accrual of 6.125% of subsequent revenues. We are currently in litigation with PharmaStem over this claim, which we believe to be without merit. We are currently waiting for the trial judge to render his opinion on the post-trial motions. The timing of this event is uncertain and beyond our control. The judge could uphold the jury verdict, overturn it, require a new trial or require further information before rendering his opinion. In the event that the judge upholds the jury verdict we will consider lodging an appeal and continuing litigation.
- (3) In-process technology expense for the year ended December 31, 2003 included \$22.1 million, being the fair value of technology acquired in the purchase of Kourion Therapeutics, and \$1.8 million in respect of technology acquired from Amgen and GlaxoSmithKline. The expense in the years ended December 31, 2002 and 2001 represented the fair value of warrants related to technology licensed from Amgen of \$5.9 million and stock options granted to Genzyme for a research collaboration valued at \$0.6 million, respectively.
- (4) Stock-based compensation expense represents the amortization of the excess of the fair value on the date of grant of the stock underlying the options granted to employees over the exercise price and the expense related to options granted to nonemployees. Total stock-based compensation for employees and nonemployees was approximately \$4.5 million, \$6.5 million and \$3.2 million for the years ended December 31, 2001, 2002 and 2003, respectively.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

The following discussion and analysis by our management of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Risk Factors.

Overview

We are a global biotechnology company engaged in sourcing, developing and commercializing cellular therapies to address cancer, infertility and certain genetic and cardiac diseases. Our research and development efforts focus primarily on developing cord blood-derived stem cell products in therapeutically useful quantities. We are also developing a product for cryopreserving and storing human oocytes. Since our inception on September 2, 1994, our principal activities have included:

developing our Selective Amplification and other stem cell therapy technologies;

expanding our ViaCell Reproductive Health franchise in the United States;

expanding our pipeline of novel stem cell and other product candidates through internal development, and the acquisition of third party technologies;

expanding and strengthening our intellectual property position through internal programs, third party licenses, and acquisitions;

recruiting management, research, clinical, and sales and marketing personnel; and

forming alliances with larger, more experienced biotechnology and pharmaceutical companies, including Amgen.

As of December 31, 2003, our accumulated deficit was approximately \$128.7 million. From inception through December 31, 2003, we have raised \$137.2 million in common and preferred stock issuances. We have incurred net losses since inception as a result of research and development, sales and marketing and general and administrative expenses in support of our operations. We anticipate incurring net losses for at least the next several years due to:

the increasing costs of conducting clinical trials for our lead hematopoietic stem cell product candidate, CB001;

the working capital costs associated with anticipated growth of our ViaCell Reproductive Health franchise within the United States and Europe;

the increasing costs associated with preclinical and clinical studies for our other stem cell therapy product candidates; and

the increasing costs associated with the development of our oocyte cryopreservation technology.

Our financial success will depend on many factors, including our ability to grow our umbilical cord blood preservation business, establish the safety and efficacy of our therapeutic product candidates, obtain necessary regulatory approvals and successfully commercialize new products.

Our management currently uses consolidated financial information in determining how to allocate resources and assess performance. We may organize our business into more discrete business units when and if we generate significant revenue from the sale of stem cell therapies. For these reasons, we have determined that we conduct operations in one business segment. Substantially all of our revenue since

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inception has been generated in the United States and the majority of our long-lived assets are located in the United States.

Revenues

Our current revenue is derived primarily from fees charged to families for the preservation and storage of a child's umbilical cord blood collected at birth. These fees consist of an initial fee for collection, processing and freezing of the umbilical cord blood and an annual fee for storage. The renewal fee provides a growing annuity of future revenue as the number of stored cords increases. Our revenues are recorded net of promotional and other discounts and rebates that we offer our customers. Our revenues have increased substantially over the last several years as the concept of cord blood banking has gained popularity.

In addition to the revenue generated by our ViaCell Reproductive Health franchise, we record revenue from grant agreements with the governments of Singapore and Germany, where we maintain research facilities, and from contract research performed at our research laboratories in the United States.

Operating Expenses

Cost of revenues reflects the cost of transporting, testing, processing and storing umbilical cords at our cord blood processing facility in Hebron, Kentucky, as well as a royalty to PharmaStem Therapeutics, Inc. relating to ongoing patent infringement litigation. We recorded a royalty expense of approximately \$3.3 million in 2003 following an unfavorable jury verdict in October 2003. We believe this claim is without merit and are continuing litigation. This expense included a royalty of approximately \$2.9 million on revenues from cord blood preservation through October 29, 2003, plus an accrual of a royalty of 6.125% of subsequent revenues through December 31, 2003. Pending further action by the courts, we intend to continue recording a royalty expense at 6.125% of cord blood processing and storage revenues. It is possible that the final outcome of this litigation could result in a reduction in, or the elimination of, royalties payable regarding this patent claim. Conversely, it is possible that the royalty rate could be increased. Should either of these two possibilities occur, our financial position and results of operation could be materially affected. We are appealing that verdict, as we believe the suit's claims to be without merit. Our cost of revenues also include expenses incurred by third party vendors relating to the transportation of cord blood to our processing facility and certain assay testing performed on the cord blood before preservation. Other variable costs include collection materials, labor, and processing and storage supplies, while other fixed costs include rent, utilities and other general facility overhead expenses. Cost of revenues does not include costs associated with our grant revenue. Such costs are included in research and development expense.

Our research and development expenses consist primarily of costs associated with our lead stem cell product candidate, CB001, and the continued development of our technologies, including Selective Amplification, oocyte cryopreservation and other cellular therapy product candidates. These expenses represent both clinical development costs and costs associated with non-clinical support activities such as toxicological testing, manufacturing process development and regulatory services. The cost of our research and development staff is the most significant category of expense, however we also incur expenses by external service providers, including license agreements and consulting expenses. The major expenses relating to our CB001 clinical trial include external services provided for outside quality assurance testing, clinical trial monitoring, data management, and fees relating to the general administration of the clinical trial. Other direct expenses relating to our CB001 clinical trial include site costs and the cost of the cord blood.

We expect that research and development expenses will continue to increase in the foreseeable future as we add personnel, expand our clinical trial activities and increase our discovery research and regulatory capabilities. The amount of these increases is difficult to predict due to the uncertainty inherent in the timing and extent of clinical trial initiations, the progress in our discovery research programs, the rate of patient enrollment and the detailed design of future clinical trials. In addition, the results from our clinical

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trials, as well as the results of trials of similar therapeutics under development by others, will influence the number, size and duration of planned and unplanned trials. On an ongoing basis, we evaluate the results of our product candidate programs, all of which are currently in early stages. Based on these assessments, for each program, we consider options including, but not limited to, terminating the program, funding continuing research and development with the eventual aim of commercializing products, or licensing the program to third parties. 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 of the CB001, muscular dystrophy, cardiac disease and other product candidates. Until we obtain further relevant 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 ever receive cash inflows from them.

Our selling and marketing expenses relate primarily to our ViaCell Reproductive Health franchise. The majority of these costs relate to our sales force and support personnel, as well as telecommunications expense related to our call center. We also incur external costs associated with advertising, direct mail, promotional and other marketing services. We expect that selling and marketing expenses will increase in the foreseeable future as we expand our sales and marketing efforts and increase our operating activities.

Our general and administrative expenses include our costs related to the finance, legal, human resources, information technology, business development and corporate governance areas. These costs consist primarily of expenses related to our staff, as well as external fees paid to our legal and financial advisers, business consultants and others. We expect that these costs will increase in future years as we expand our business activities and as we incur additional costs associated with becoming a publicly-traded company.

Recent Acquisitions

In September 2003, we acquired all outstanding shares of Kourion Therapeutics AG in exchange for 549,854 shares of our Series I convertible preferred stock, valued at approximately \$4.4 million, and a promissory note in the principal amount of \$14.0 million. As further potential consideration, we issued 241,481 additional shares of Series I convertible preferred stock to an escrow account (escrow shares) and reserved 289,256 shares of Series I convertible preferred stock (contingent shares) for possible issuance in the future. Under the acquisition agreement, we are also obligated to make payments to Kourion Therapeutics former shareholders if certain USSC-related product development milestones are achieved. Should all of the milestones be achieved, including final FDA approval of the developed products, we would have to pay a total of \$12.0 million, either in stock or cash at each shareholder's option. The escrowed shares will be released, and the contingent shares will be issued, upon the earlier of a change in control of our company or a public offering of our common stock at a price per share of at least \$9.70 resulting in net proceeds of at least \$50.0 million, which could include the offering made by this prospectus. If neither event occurs prior to September 30, 2006, the escrow shares will revert back to us and the contingent shares will never be issued. If the contingent shares are issued upon a change in control, the recipients of these shares will be issued an additional number of shares equal to 8% of the initial number of shares issued compounded annually from the acquisition closing date to the date of issuance. The results of operations of Kourion Therapeutics are included in our consolidated financial statements from the date of acquisition. We have also included a pro forma consolidated statement of operations showing the effect of Kourion Therapeutics had we acquired it on January 1, 2003. In addition, the financial statements of Kourion Therapeutics for the year ended December 31, 2002 and the nine months ended September 30, 2003 are included in this prospectus.

Table of Contents**Results of Operations**

Years Ended December 31, 2003 and 2002 (table amounts in millions, year over year changes based on rounded amounts in millions)

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|-----------------------------|---------------|---------------|-----------------------------------|----------------------------------|
| Processing revenues | \$ 18.5 | \$ 27.8 | \$ 9.3 | 50% |
| Storage revenues | 1.6 | 3.1 | 1.5 | 94% |
| Total | 20.1 | 30.9 | 10.8 | 54% |
| Grant and contract revenues | 0.3 | 1.0 | 0.7 | 233% |
| Total revenues | \$20.4 | \$31.9 | \$ 11.5 | 56% |

The increase in processing and storage revenues of \$10.8 million or 54% was due primarily to an increase in the number of cords processed for customers, as well as an increase in the number of cords stored. The increase in grant and contract revenues of \$0.7 million or 233% was primarily due to grant and contract revenue of \$0.4 million from Kourion Therapeutics, which was acquired on September 30, 2003, \$0.1 million from the receipt of a grant from the Government of Singapore covering the whole of 2003 compared with half the year in 2002, and \$0.2 million from contract revenue derived from research activities in the United States.

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Cost of revenues | \$5.9 | \$10.4 | \$4.5 | 76% |

The increase in cost of revenues of \$4.5 million or 76% was due in part to our accrual of \$3.3 million in 2003 in connection with the PharmaStem lawsuit, to cover our cumulative royalty expense from August 2000 through December 31, 2003 following the jury verdict that was announced in October 2003. Management continues to believe that the lawsuit is without merit and intends to continue litigation. In addition, we incurred an increase in expenses of \$2.0 million directly related to our processing and storage facility in Kentucky. The increased costs were offset by a decrease of \$0.8 million relating to third party vendors.

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Research & development | \$ 11.4 | \$ 13.2 | \$ 1.8 | 16% |

The increase in spending of \$1.8 million or 16% was due primarily to higher expenses related to the development and quality assurance of our reproductive health products of \$0.9 million, development expenses of \$0.7 million related to Kourion Therapeutics development activities, primarily related to development of the USSC technology, and \$0.2 million in increased spending on quality assurance testing on CB001.

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|-------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Sales & marketing | \$ 16.6 | \$ 21.0 | \$ 4.4 | 27% |

The increase in expenses of \$4.4 million or 27% was due primarily to employee related costs of \$2.2 million, direct to consumer marketing expenses of \$1.0 million and professional marketing expenses of \$0.9 million. For both years, these expenses related primarily to our cord blood preservation business.

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| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|--------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| General & administrative | \$10.9 | \$15.2 | \$4.3 | 39% |

General and administrative expenses increased by \$4.3 million or 39% over 2002. This increase was due primarily to employee related costs of approximately \$1.0 million to support our growing business, an increase of \$2.1 million in legal fees associated with the PharmaStem lawsuit, Viacord sales collection

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related expenses of \$0.6 million, professional fees of \$0.7 million, various license agreement expenses of \$0.4 million and expenses of \$0.8 million related to Kourion Therapeutics. These increases were offset by a \$1.6 million charge in 2002 relating to our previous S-1 filing that did not recur in 2003.

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|-----------------------|-------------|-------------|-----------------------------------|----------------------------------|
| In-process technology | \$5.9 | \$23.9 | \$18.0 | 305% |

The expense for the year ended December 31, 2003 consisted primarily of \$22.1 million, representing the portion of the Kourion Therapeutics purchase price allocated to acquired in-process technology. In addition, \$1.7 million represented the stem cell growth factor technology licensed from Amgen, and \$0.1 million related to technology acquired from GlaxoSmithKline. The expense for the year ended December 31, 2002 resulted from the licensing of technology from Amgen.

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|--------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Stock-based compensation | \$6.5 | \$3.2 | \$(3.3) | (51%) |

Stock-based compensation expense decreased by \$3.3 million, or 51% due to less options granted in the current year below fair value. Stock-based compensation expense represents the amortization of the excess of the fair value on the date of grant of the stock underlying the options granted to employees, over the exercise price. The amortization is based on the vesting period of the related options. The unamortized portion of stock-based compensation at December 31, 2003 amounted to \$3.4 million. The amount of stock-based compensation actually recognized in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

| | <u>2002</u> | <u>2003</u> | <u>\$ Change 2002 to 2003</u> | <u>% Change 2002 to 2003</u> |
|--------------------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Interest income | \$ 0.9 | \$ 0.3 | \$(0.6) | (67%) |
| Interest expense | \$(0.2) | \$(0.7) | \$(0.5) | (250%) |
| Total interest income (expense), net | 0.7 | (0.4) | (1.1) | (157%) |

Interest income is earned from the investment of our cash in short-term securities and money market funds. Interest expense relates to interest payable on our credit facility and interest on the \$14.0 million note we issued in connection with the acquisition of Kourion.

Years Ended December 31, 2002 and 2001 (table amounts in millions, year over year changes based on rounded amounts in millions)

| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|-----------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Processing revenues | \$6.8 | \$18.5 | \$11.7 | 172% |
| Storage revenues | 0.3 | 1.6 | 1.3 | 433% |
| Total | 7.1 | 20.1 | 13.0 | 183% |
| Grant and contract revenues | 0.2 | 0.3 | 0.1 | 50% |
| Total revenues | \$7.3 | \$20.4 | \$13.1 | 179% |

The increase in processing and storage revenues of \$13.0 million or 183% was due primarily to an increase in the number of units processed for customers, as well as an increase in the number of units stored. Our remaining revenues came from research contracts and grants.

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| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Cost of revenues | \$3.1 | \$5.9 | \$2.8 | 90% |

The increase was primarily due to expenses of \$1.4 million directly related to our processing and storage facility in Kentucky, and an increase of \$1.4 million relating to costs from third party vendors.

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| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Research & development | \$7.0 | \$11.4 | \$4.4 | 63% |

Research and development expenses increased by \$4.4 million or 63%. The increase in spending was due primarily to higher expenses of \$1.6 million related to the development of CB001 and the development of our Selective Amplification technology and an increase of \$2.7 million in general research expenses relating to our diabetes program, neuro-sciences program and the establishment of our Singapore research center in April 2002 and our Cambridge research center in November 2001.

| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|-------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Sales & marketing | \$9.3 | \$16.6 | \$7.3 | 78% |

Sales and marketing expenses increased by \$7.3 million or 78%. For both years, these expenses related primarily to our cord blood preservation business. The increase in expenses was due primarily to employee related costs of \$2.8 million, expansion of our call center of \$0.8 million, direct to consumer marketing of \$3.0 million and professional marketing of \$0.5 million.

| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|--------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| General & administrative | \$7.1 | \$10.9 | \$3.8 | 54% |

General and administrative expenses increased by \$3.8 million or 54%. The increase in expenses was due primarily to employee related costs of approximately \$1.8 million to support our growing business, an increase in legal fees associated with the PharmaStem lawsuit of \$1.7 million, and a charge of \$1.6 million in 2002 relating to the preparation of our previous registration statement. The increases in 2002 were offset by a reduction in amortization charges of \$0.6 million.

| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|-----------------------|-------------|-------------|-----------------------------------|----------------------------------|
| In-process technology | \$0.6 | \$5.9 | \$5.3 | 883% |

In-process technology expense increased by \$5.3 million. The expense for the year ended December 31, 2002 represented the value of warrants relating to technology licensed from Amgen and the expense for the year ended December 31, 2001 related to stock options granted to Genzyme for a research collaboration.

| | <u>2001</u> | <u>2002</u> | <u>\$ Change 2001 to 2002</u> | <u>% Change 2001 to 2002</u> |
|--------------------------|-------------|-------------|-----------------------------------|----------------------------------|
| Stock-based compensation | \$4.5 | \$6.5 | \$2.0 | 44% |

Stock-based compensation expense increased by \$2.0 million or 44% due to more options granted below fair market value. Stock-based compensation expense represents the amortization of the excess of the fair value on the date of grant of the stock underlying the options granted to employees, over the exercise price. The amortization is based on the vesting period of the related options. The unamortized portion of stock-based compensation at December 31, 2002 amounted to \$6.1 million. The amount of stock-based compensation actually recognized in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

\$ Change **% Change**

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| | <u>2001</u> | <u>2002</u> | <u>2001 to 2002</u> | <u>2001 to 2002</u> |
|--------------------------------------|---------------|---------------|---------------------|---------------------|
| Interest income | \$ 2.2 | \$ 0.9 | \$(1.3) | (59%) |
| Interest expense | (0.1) | (0.2) | (0.1) | (100%) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total interest income (expense), net | \$ 2.1 | \$ 0.7 | \$(1.4) | (67%) |

Interest income is derived from investing our cash balances, and decreased by \$1.3 million or 59% due primarily to lower interest rates. Interest expense represents interest payable on our credit facility.

Table of Contents**Liquidity and Capital Resources**

Since inception, we have financed our operations primarily through private sales of preferred stock resulting in gross proceeds of \$137.2 million through December 31, 2003. We have generated operating losses since our inception, and we expect losses to increase for the next several years. As of December 31, 2003, we had cumulative net losses of approximately \$128.7 million. As of December 31, 2003, we had approximately \$46.8 million in cash, cash equivalents and investments, which we believe is sufficient to meet our anticipated liquidity needs for at least the next twelve months.

| | 2001 | 2002 | 2003 | \$ Change 2001 to 2002 | \$ Change 2002 to 2003 |
|---|----------|----------|----------|---------------------------|---------------------------|
| Net cash used in operating activities | \$(14.2) | \$(21.1) | \$(22.5) | \$ (6.9) | \$ (1.4) |
| Net cash provided by (used in) investing activities | \$(39.2) | \$ 18.5 | \$ 6.3 | \$ 57.7 | \$(12.2) |
| Net cash provided by financing activities | \$ 15.3 | \$ 1.4 | \$ 40.0 | \$(13.9) | \$ 38.6 |
| Cash & cash equivalents, end of year | \$ 16.4 | \$ 15.2 | \$ 39.0 | \$ (1.2) | \$ 23.8 |

Net cash used in operating activities increased to \$22.5 million in 2003 from \$21.1 million in 2002 and \$14.2 million in 2001. The increases were due to the costs associated with the clinical development of CB001, the expansion of our sales and marketing efforts, the legal fees and the \$2.9 million royalty escrow payment related to the PharmaStem litigation and the preclinical efforts in the muscular dystrophy, cardiac disease and other programs, but were partially offset by increased revenues from our cord blood preservation business and the increase in accrued expenses of \$4.9 million.

Net cash provided by investing activities was \$6.3 million in 2003, compared to net cash provided of \$18.5 million in 2002 and net cash used of \$39.2 million in 2001. During 2001, we invested \$39.6 million of the proceeds from the November 2000 issuance of redeemable convertible preferred stock in US government and highly-rated corporate securities. Of these investments, \$39.0 million matured during 2002 and \$15.6 million was reinvested in similar securities. In 2003, \$15.8 million of these securities matured and \$9.7 million was reinvested in similar securities. In addition, we acquired approximately \$2.4 million, \$4.8 million and \$1.8 million in property and equipment in 2001, 2002 and 2003, respectively. In 2002 these investments included approximately \$2.9 million to construct and equip a cord blood processing laboratory and storage facility in Hebron, Kentucky, which became fully operational in July 2002. These costs consisted of laboratory and blood processing equipment, cryogenic freezers and facility improvements. We also invested approximately \$1.9 million, \$1.6 million and \$0.1 million in laboratory equipment in the years ended December 31, 2003, 2002 and 2001, respectively. The remaining investments in property and equipment consisted of computer equipment, software and furniture and fixtures. Prepaid and other current assets increased by \$3.4 million in 2003 of which \$2.9 million relates to the PharmaStem escrow deposit. Other noncurrent assets increased approximately \$1.8 million primarily related to the deposit related to the credit facility that was entered into in October 2003.

Net cash provided by financing activities amounted to \$15.3 million in 2001, \$1.4 million in 2002 and \$39.6 million in 2003, excluding the effect of the change in exchange rates. This includes the proceeds from the issuance of redeemable convertible preferred stock of \$36.9 million, \$1.5 million and \$14.9 million in the years ended December 31, 2001, 2002 and 2003, respectively. Of the \$14.9 million received from the issuance of redeemable convertible preferred stock in October 2001, we are committed to investing no more than \$4.0 million over a five-year period in research and development programs to be conducted in, and a research facility located in, Singapore. In 2003, we issued promissory notes totaling \$14.0 million to a former stockholder of Kourion Therapeutics in connection with our acquisition of that company in September 2003. In 2002, certain property and equipment additions were financed with the proceeds of a credit facility. In 2003, we replaced that credit facility with a \$5.0 million credit facility from another lender. As a result of replacing the original credit facility, we were able to reduce the amount of cash required to be held as collateral for the amount borrowed, with the result that our restricted cash balance was reduced by \$3.2 million in 2003.

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We anticipate that our current cash, cash equivalents and short-term investments will be sufficient to fund our operations for at least the next 12 months. However, our forecast for the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue one or more clinical trials, or other aspects of our operations.

We currently anticipate that we will use the net proceeds from this offering to fund our clinical trial activities, pre-clinical research and development activities, expansion of our commercial infrastructure, payment of a \$14.0 million note issued as partial consideration in our acquisition of Kourion and other general corporate purposes including capital expenditures and working capital to fund anticipated operating losses. We expect to incur substantial costs and losses as we continue to expand our research and development activities, particularly as we move product candidates into additional clinical trials, and we expect that these expenditures will increase significantly over at least the next several years.

Commitments and Contingencies

The table below summarizes our commitments and contingencies (in millions and does not include our accounts payable and accrued expenses at 12/31/03):

| Contractual Obligations | Total | Payments by Due Period | | | |
|-------------------------------|---------|------------------------|--------------------|--------------------|------------------|
| | | Less than One Year | One to Three Years | Four to Five Years | After Five Years |
| Operating lease obligations | \$ 19.3 | \$ 1.7 | \$ 5.9 | \$ 3.5 | \$ 8.2 |
| Capital lease obligations | 0.5 | 0.1 | 0.2 | 0.1 | 0.1 |
| Short and long-term debt | 5.2 | 1.8 | 3.4 | | |
| Notes payable(1) | 14.3 | 14.3 | | | |
| Consulting agreements | 0.3 | 0.2 | 0.1 | | |
| License agreements(2) | 1.4 | 1.4 | | | |
| | — | — | — | — | — |
| Total contractual obligations | \$41.0 | \$ 19.5 | \$ 9.6 | \$ 3.6 | \$ 8.3 |

(1) These notes related to our acquisition of Kourion Therapeutics in September 2003 and are payable in full at the earliest to occur of an initial public offering of our common stock, the sale of the Company, or September 2007. Based on the intent of the offering under this prospectus, we are considering the full amount of the note payable in 2004.

(2) We have several other patent license agreements for technologies that are in early stages of development. These agreements require that we pay annual license fees, milestone payments upon the achievement of certain development objectives, and royalty payments on sales of our products that incorporate the licensed technology. While we are currently making license payments under some of these agreements, we can cancel any of these agreements at any time without further financial obligation.

Loan Obligation

In October 2003, we entered into a \$5.0 million loan agreement with a financial institution. Borrowings under this agreement bear interest at 6.9% percent per annum and are collateralized by our fixed assets. Payments of principal and interest are due monthly through October 2006, and approximately \$4.7 million remained outstanding under this loan as of December 31, 2003. In accordance with the terms of the loan, we are required to maintain a cash deposit of approximately \$1.8 million with the lender as additional collateral. This deposit is classified as other assets in the consolidated balance sheet.

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Lease Obligations

We entered into a new operating lease commitment in December 2003 to consolidate our headquarters and US laboratory facilities in one location in Cambridge, Massachusetts. Rent expense on the office portion of this lease commences in April 2004 and the rent on the laboratory facilities will commence 150 days after the date on which the landlord has substantially completed the landlord's work. We estimate the rent on the laboratory facilities will commence at the end of 2004 or beginning of 2005 for the term of ten years. Our office rent under this lease is \$0.4 million per year for the first two years of the lease, increasing to \$0.5 million per year through the remainder of the lease. Our laboratory rent under this lease is \$1.0 million per year for the first two years of the lease, increasing to \$1.1 million per year for the next four years, and increasing to \$1.2 million through the remainder of the lease. We also expect to incur approximately \$5.1 million in capital expenditures for leasehold and other improvements associated with our move to this new location. Our lease agreement provides for an allowance from our landlord of approximately \$3.5 million to offset these capital improvements. In connection with this operating lease commitment with a commercial bank, we entered into a letter of credit in December 2003 for \$1.4 million collateralized by certificates of deposit that are classified as restricted cash on our balance sheet.

In April 2002 we entered into a lease commitment for a facility located in Hebron, Kentucky used for the processing and storage of umbilical cord blood. This is a ten-year lease that commenced in June 2002, with renewal rights and a right of first offer. The annual rent is approximately \$0.1 million per year.

As part of our acquisition of Kourion Therapeutics in September 2003, we assumed an operating lease in Langenfeld, Germany that commenced in June 2003. The facility has both laboratory and office space to support our research efforts in Germany. This lease has a term of five years, with a right to one-year extensions each year for an additional five years, with an annual rent of approximately \$0.3 million per year.

In February 2002, we entered into a lease commitment for our research facility in Singapore. This lease has a five-year term that commenced in May 2002 with an annual rent of approximately \$0.1 million per year.

Acquisition of Kourion Therapeutics

Promissory Note. As part of our acquisition of Kourion Therapeutics in September 2003, we issued promissory notes totalling \$14.0 million in aggregate principal amount to entities affiliated with MPM Asset Management LLC, that mature on September 30, 2007, but are subject to mandatory repayment upon the earlier to occur of an initial public offering of our common stock (including the offering under this prospectus) and the sale of the Company. The notes bear interest at a rate of 8% per annum payable in arrears in cash accruing on the unpaid principal balance of the notes, compounded annually and payable on the maturity date.

Milestones. In addition, there are potential future payments totalling up to \$12.0 million payable to former shareholders of Kourion Therapeutics if certain USSC-related product development milestones are achieved. The milestone payments are payable in cash or stock valued at its fair market value at the time of issuance at the election of each seller. Also, in our acquisition of Kourion Therapeutics, we issued and deposited 241,481 shares of our Series I preferred stock into an escrow account, which will be released immediately following the closing of a qualified public offering, which is an underwritten public offering of our common stock, including possibly the offering being made by this prospectus, at a price to the public of at least \$9.70 that results in net proceeds to us of \$50.0 million or more. If such an offering occurs, we will also issue to certain former shareholders of Kourion Therapeutics an additional 289,256 shares of our Series I convertible preferred stock (or of the common stock into which the preferred stock will have automatically converted immediately prior to the offering made by this prospectus). On September 30, 2006, the escrowed shares will be returned to us, and the 289,256 contingent shares will never be issued, if either a qualified public offering, or a sale of the company, does not first occur.

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License Agreements

On July 15, 2003, the Company entered into a license agreement with Gamete Technology, Inc. for the exclusive rights to utilize intellectual property developed by Gamete in the field of human oocyte cryopreservation and storage. In exchange for these rights, the Company is required to pay certain royalties on the commercial sale of products that incorporate the licensed technology. The Company is required to spend at least \$2.5 million to develop this technology during the first eighteen months of the agreement, including fees of approximately \$0.8 million payable to Gamete. As of December 31, 2003 the Company had paid Gamete \$0.4 million and expensed \$0.7 million in the development of human oocyte cryopreservation.

Other Arrangements

Amgen Collaboration Agreement. In April 2002, we entered into an agreement with Amgen Inc. under which we received a royalty-free, worldwide, non-exclusive license to patent rights covering Amgen's Stem Cell Factor. In December 2003, we entered into a new agreement with Amgen that superseded the 2002 Amgen agreement. Under the 2003 Agreement, we licensed on a non-exclusive basis, certain stem cell growth factor technology from Amgen and granted Amgen an option to collaborate with us on any product or products that incorporate any of those growth factors (Collaboration Product). There is no limit on the number of such products for which Amgen can exercise its option. Each time Amgen exercises its option, it must partially reimburse our past development costs for that Collaboration Product, share in the future development costs, pay us a milestone if and when the first regulatory approval for the first indication of the Collaboration Product in the United States is obtained, and take primary responsibility for clinical development, regulatory approval, marketing and commercialization of the Collaboration Product. The parties would share in profits and losses resulting from the Collaboration Products worldwide sales. Either we or Amgen may later opt-out of any product collaboration upon advance notice. The 2003 agreement terminates on the later of the expiration of the licensed Amgen patents or when no products are being co-developed or jointly commercialized between us and Amgen.

In conjunction with the 2003 agreement, Amgen made a \$20 million investment in our Series K preferred stock. In connection with this investment, we entered into an agreement with Amgen under which Amgen may require us to redeem up to 1,250,000 shares of the Series K preferred stock owned by Amgen at a price of \$8.00 per share if there is a final judgment against us in, or a settlement of, the PharmaStem litigation, for a total amount exceeding \$30 million (including the initial judgement amount as well as certain royalties, if any, that we become obligated to pay PharmaStem), or if PharmaStem is granted an injunction against us that is not stayed or vacated. Amgen's right will terminate upon the closing of this offering.

Warrants. In November 1997, in connection with the issuance of our Series D preferred stock, we issued to those investors warrants to purchase 750,000 shares of our common stock at a price per share of \$1.50. These warrants vested in full on the date of grant and are exercisable through November 12, 2007. The value ascribed to these warrants was not material. In May 1999, in connection with the issuance of our Series E preferred stock, we issued to one of those investors a warrant to purchase 100,000 shares of our common stock at a price per share of \$1.50. The warrant vested in full on the date of grant and is exercisable through May 21, 2009. The value ascribed to this warrant was not material. In February 2000, we issued a warrant to purchase 13,333 shares of our common stock at an exercise price of \$3.00 per share to a landlord. The warrant vested in full on the date of grant and was exercised in January 2002. The value ascribed to this warrant was not material.

In April 2002, we entered into an agreement with Amgen under which we received a nonexclusive license to patent rights covering Amgen's Stem Cell Factor. In connection with the agreement, we issued to Amgen a warrant to purchase 560,000 shares of our common stock at an exercise price of \$12.00 per share. The warrant vested on October 9, 2002 and is exercisable in whole or in part at any time prior to April 9, 2009. Using the Black-Scholes pricing model, the warrant had a fair value of approximately \$5.9 million at the date of issuance. The Stem Cell Factor technology licensed from Amgen, which is

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being used in the production process for CB001, our lead stem cell product candidate, had not achieved technological feasibility and had no alternative future use at that time, therefore we charged the purchase price of \$5.9 million to in-process technology expense.

In connection with the credit facility, we issued a warrant to the lender for the purchase of 18,750 shares of our Series J convertible preferred stock with an exercise price of \$8.00 per share and a term of ten years. We valued the warrant using the Black Scholes model deriving a fair market value of approximately \$57,000. The warrant is being amortized under the effective interest method over the term of the note. There are no financial covenants associated with this loan agreement.

We are a party to various agreements in addition to those previously discussed, including license, research collaboration, consulting and employment agreements and expect to enter into additional agreements in the future. We may require additional funds for conducting clinical trials and for preclinical research and development activities relating to our product candidates, as well as for the expansion of our cord blood preservation facility, construction of a cellular therapy manufacturing facility, acquisitions of technologies or businesses, the establishment of partnerships and collaborations complementary to our business and the expansion of our sales and marketing activities.

Net Operating Loss Carryforwards

At December 31, 2003, we had federal and state net operating loss carryforwards of approximately \$67.5 million and \$68.2 million, respectively. These carryforwards begin to expire in 2009 and 2004, respectively. We also had federal and state credits carryforwards of approximately \$1.9 million and \$1.0 million, which begin to expire in 2009 and 2013, respectively. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carryforwards that can be utilized if certain changes in our ownership occur.

Quantitative and Qualitative Disclosure About Market Risks

Investment Risk

We own financial instruments that are sensitive to market risks as part of our investment portfolio. We use this investment portfolio to preserve our capital until it is required to fund operations, including our research and development activities. Our investment portfolio includes only marketable securities with active secondary or resale markets to help ensure portfolio liquidity, and we have implemented guidelines limiting the duration of investments. We invest in highly-rated commercial paper with maturities of less than two years and money market funds. None of these market-risk sensitive instruments is held for trading purposes. We do not own derivative financial instruments in our investment portfolio.

Foreign Exchange Risk

Transactions by our German subsidiary Kourion Therapeutics are recorded in euros. Exchange gains or losses resulting from the translation of Kourion's financial statements into US dollars are included as a separate component of stockholders' deficit. We hold euro-based currency accounts to mitigate foreign currency transaction risk. Since both the revenues and expenses of this subsidiary are denominated in euros, the fluctuations of exchange rates may adversely affect our results of operations, financial position and cash flows.

Interest Rate Risk

We invest our cash in a variety of financial instruments, principally securities issued by the US government and its agencies, investment grade corporate and money market instruments. These investments are denominated in US dollars. These bonds are subject to interest rate risk, and could decline in value if interest rates fluctuate. Due to the conservative nature of these instruments, we do not believe that we have a material exposure to interest rate risk.

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Critical Accounting Policies

Our consolidated 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 us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies include:

revenue recognition;

accounting for royalty expense in connection with the PharmaStem litigation;

accounting for research and development expenses;

accounting for the valuation of equity instruments; and

purchase accounting and in-process technology.

Revenue Recognition. Our revenues are currently generated principally through our umbilical cord blood preservation and storage activities.

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, (SAB 101) as amended by SAB 104, and Emerging Issues Task Force (EITF) Issue No. 00-21 for all revenue transactions entered into in fiscal periods beginning after June 30, 2003.

We receive fees for collecting, testing, freezing and storing of cord blood units and recognize revenue upon the successful completion of these processes. Storage revenue is deferred and recognized over the storage period.

We analyze our multiple element arrangements entered into after June 30, 2003 to determine whether the elements can be separated and accounted for individually as separate units of accounting in accordance with EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. We recognize fees received from collecting, testing and freezing processes (collectively known as processing) as revenue if it has standalone value and the fair value of the undelivered storage services can be determined. The Company has concluded that the collection, testing and freezing service has standalone value to the customer. The fair value of processing service cannot be determined but the Company has objective evidence of fair value of the undelivered storage. The fair value of the storage is equal to the annual storage fee charged to customers. We defer the fair value of the revenue related to the future storage of the unit and recognize the remainder of the revenue under the residual method.

Accounting for royalty expense in connection with the PharmaStem litigation. Cost of revenues includes a royalty to PharmaStem relating to a claim for patent infringement. We are currently in litigation with PharmaStem regarding this claim. We recorded a royalty expense of approximately \$3.3 million in 2003 following a jury verdict in October 2003 which found infringement. This expense included a royalty of approximately \$2.9 million on revenues from cord blood preservation through October 29, 2003, plus an accrual of 6.125% of subsequent revenues through December 31, 2003. Pending further action by the courts we will continue accruing a royalty expense at 6.125% of cord blood processing revenues. It is possible that the final outcome of this litigation could result in a reduction in, or the elimination of, royalties payable regarding this patent claim. Conversely, it is possible that the royalty rate could be increased. Should either of these two possibilities occur, our financial position and results of operations could be materially affected.

Accounting for research and development expenses. Our research and development expenses primarily consist of costs associated with product development for CB001, the development of Selective Amplification and our other stem cell therapy technologies and our oocyte cryopreservation program. These expenses represent both clinical development costs and the costs associated with non-clinical support

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activities such as toxicological testing, manufacturing process development and regulatory consulting services. Clinical development costs represent internal costs for personnel, external costs incurred at clinical sites and contracted payments to third party clinical research organizations to perform certain clinical trials. We also report the costs of patent licenses in this category. Our product candidates do not currently have regulatory approval; accordingly, we expense the license fees and related milestone payments when we incur the liability. We accrue research and development expenses for activities occurring during the fiscal period prior to receiving invoices from clinical sites and third party clinical research organizations. We accrue external costs for clinical studies based on the progress of the clinical trials, including patient enrollment, progress by the enrolled patients through the trial, and contracted costs with clinical sites. We record internal costs primarily related to personnel in clinical development and external costs related to non-clinical studies and basic research when incurred. Significant judgments and estimates must be made and used in determining the accrued balance in any accounting period. Actual costs incurred may or may not match the estimated costs for a given accounting period. We expect that expenses in the research and development category will increase for the foreseeable future as we add personnel, expand our clinical trial activities and increase our discovery research capabilities. The amount of the increase is difficult to predict due to the uncertainty inherent in the timing of clinical trial initiations, progress in our discovery research program, the rate of patient enrollment and the detailed design of future trials. In addition, the results from our trials, as well as the results of trials of similar drugs under development by others, will influence the number, size and duration of both planned and unplanned trials.

Accounting for the valuation of equity instruments. We record compensation expense related to options issued to consultants and employees based on the deemed fair value of the common stock underlying the options. Because there has been no public market for our common stock, we have estimated the fair value of these equity instruments using various valuation methods. If future market conditions dictate significant changes in the estimates of fair value, or if a public market establishes a value for our common stock that is significantly higher than our estimated value, our financial position and results of operations could be materially affected.

Purchase accounting and in-process technology. We expense costs associated with purchased licenses used in our on going research and development activities, which have not yet reached technical feasibility and have no alternative future use.

Upon consummation of the Kourion acquisition, we immediately expensed as in-process technology a portion of the fair value allocated to in-process research and development (IPR&D).

We believe that this charge represents a reasonably reliable estimate of the future benefits attributed to purchased IPR&D. The value assigned to IPR&D was composed of the projected value of the two Kourion preclinical drug development projects. The valuation was determined using the income approach. Potential revenue and drug development expenses were projected through 2021 based on management estimates. Specifically, we estimated that the development of the Kourion programs through clinical trials to commercial viability would take approximately eight years and would cost in excess of \$31.0 million. The discounted cash flow method was applied to the projected cash flows, adjusted for the probability of success using a discount rate of 23%. The discount rate takes into consideration the uncertainty surrounding the successful development and commercialization of the IPR&D. Since the acquisition, nothing has occurred that would lead us to believe that the original estimates of the cost to develop these therapies, or their revenue potential, is materially different from the estimates used at the time of the acquisition for purposes of purchase accounting.

Stock-Based Compensation

In connection with the grant of stock options to employees in 2000, 2001, 2002, and 2003, we recorded an aggregate amount of \$14.4 million in deferred stock-based compensation within stockholders' deficit. These options were considered compensatory because the deemed fair value, as subsequently determined, was greater than the exercise price on the date of grant. As of December 31, 2003, we had an aggregate of \$3.4 million of deferred stock compensation remaining to be amortized. We are amortizing

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the deferred compensation over the vesting period of the related options, under the provisions of Financial Accounting Standards Board Interpretation No. 28. The amount of stock-based compensation actually recognized in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

Stock-based compensation related to options granted to employees where the fair market value was above the strike price at the date of grant, will be recognized in the following periods, ending December 31,

| | |
|------|-------------|
| 2004 | \$2,123,477 |
| 2005 | 889,951 |
| 2006 | 281,033 |
| 2007 | 88,691 |
| 2008 | 39,223 |
| | \$3,422,375 |

Certain of our key employees have employment agreements that provide for the acceleration of vesting of stock options under certain circumstances, including upon termination and/or change in control. The acceleration of such vesting could potentially give rise to an increase in stock-based compensation expense in a future period. Further details of the provisions contained in these agreements are discussed in this prospectus in the section entitled *Management* under the heading *Employment and Severance Arrangements*.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150). This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, certain financial instruments that embody obligations for the issuer are required to be classified as liabilities. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise will be effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the provisions of this statement to have a significant impact on our statement of financial position.

In December 2003, the FASB issued FASB Interpretation No. 46-R (FIN 46-R) a revised interpretation of FASB Interpretation No. 46 (FIN 46). FIN 46-R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46-R are effective immediately for all arrangements entered into after January 31, 2003. For all arrangements entered into after January 31, 2003, the Company is required to continue to apply FIN 46-R through the end of the first quarter of fiscal 2004. The Company does not have any equity interests that would change its current reporting or require additional disclosures outlined in FIN 46-R. For arrangements entered into prior to February 1, 2003, the Company is required to adopt the provisions of FIN 46-R in the first quarter of fiscal 2004. The Company does not have any equity interests that would change its current reporting or require additional disclosures outlined in FIN 46-R.

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BUSINESS

Overview

We are a global biotechnology company engaged in sourcing, developing and commercializing cellular therapies to address cancer, infertility and certain genetic and cardiac diseases. Cellular therapy already has a significant role in the treatment of human disease. For example, in 2002, over 45,000 bone marrow and other hematopoietic (blood) stem cell transplant procedures were performed worldwide. Researchers generally acknowledge the far-reaching potential of stem cells to treat many serious diseases that currently afflict an estimated 50 million Americans. However, the potential of cellular therapy has been largely unrealized. Current sources of stem cells are difficult to harvest and compatible donors are often not found.

We believe we have the infrastructure and technologies in place to develop and commercialize unique product solutions that overcome these limitations. We have assembled a global organization with research, sourcing, development, manufacturing and marketing capabilities. We have proprietary technologies, including our Selective Amplification technology that we believe will enable the isolation, purification and significant expansion of stem cell populations, allowing the production of well defined cellular products in therapeutically useful quantities. In addition, we have significant experience in the preservation of cells and are currently a leader in the preservation of umbilical cord blood, an abundant and non-controversial source of stem cells.

We are using these assets to develop a cord blood-derived stem cell therapeutic, CB001, our lead stem cell therapy product candidate, which is currently in a Phase I/II clinical trial. This product is a highly concentrated and purified population of stem cells for the treatment of patients with cancers and other serious diseases. We have designed CB001 to be used as a replacement for bone marrow and other crude cell mixtures used in stem cell transplants as a current standard of care. We believe that CB001 will provide a more effective treatment with fewer side effects and faster recovery than other cell sources. We intend to follow the development of CB001 with additional product candidates which may effectively treat and potentially cure other diseases, including muscular dystrophy, cardiac disease and diabetes.

We have built our initial commercial organization in the area of reproductive health. Our current commercialized product is Viacord, a leading brand in the cryopreservation of umbilical cord blood stem cells, which are used primarily for pediatric bone marrow transplants. Our Viacord customers are expectant parents who have entrusted us with their child's umbilical cord blood, which we process into a cellular therapeutic and cryopreserve for potential future use by that child or a sibling. ViaCell Reproductive Health markets Viacord and is one of the leaders in this emerging industry, with an estimated 40% market share in 2003 based on revenues. We generated \$30.9 million in sales in 2003 from cord blood processing and storage, an increase of 54% over 2002. We offer our customers, who have preserved their child's own cord blood, a higher probability of obtaining suitable stem cells for transplant. In addition, we are developing a second product in the area of reproductive health intended to offer women the choice to have their fertility preserved. This product is based on our proprietary technology that involves injecting cells with a naturally occurring sugar, which acts as a cryopreservative. We intend to commercialize our oocyte product within the next two years through our ViaCell Reproductive Health franchise.

In December 2003, we entered into a license and collaboration agreement with Amgen under which we received a non-exclusive, royalty-free, worldwide license to certain Amgen stem cell growth factors for use in developing and manufacturing cell therapy products, and Amgen received an option to collaborate with us on any product, including CB001, that incorporates an Amgen growth factor or technology. In conjunction with this license and collaboration agreement, Amgen made a \$20 million equity investment in us. We also have additional collaborations, licenses and strategic relationships with other companies and academic institutions.

Opportunities in Cellular Therapy

The human body is comprised of both cells that have differentiated into specific tissues (such as skin, liver or blood) and stem cells that are not fully differentiated. There are many types of stem cells in the

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human body. As stem cells grow and proliferate, they are capable of producing both additional stem cells as well as cells that have differentiated to perform a specific function. Stem cells are found in different concentrations and in different locations in the body during a person's lifetime. Current scientific findings suggest that each organ and tissue in the body is formed, maintained and possibly rejuvenated to different degrees, on a more or less continual basis under normal conditions, by specific and relatively rare stem cell populations naturally present in the body.

Stem cell therapy represents an increasingly important modality in treating and curing human disease. Stem cell therapy involves the use of living cells to replace and initiate the production of other cells that are missing or damaged due to disease or injury. Today, stem cell therapy involves the use of hematopoietic (blood) stem cells to regenerate healthy, functioning bone marrow to establish and maintain the blood and immune system. Additional types of stem cells which may have therapeutic use include neural (capable of differentiating into nerve and brain tissue), mesenchymal (capable of differentiating into bone, cartilage and fat) and pancreatic islet stem cells (capable of differentiating into cells secreting insulin). Hematopoietic stem cell therapy is a medical procedure in which bone marrow, umbilical cord blood or processed circulating blood (all of which contain hematopoietic stem cells) are infused into the patient's circulatory system, where they find their way to the bone cavity. Once established in the bone, they begin to grow, or engraft, and produce cells of the blood and immune systems. Cells for this procedure are typically obtained from a donor, though, in some cases, the patient's own cells may be used.

Hematopoietic stem cell therapy can be used to:

replace diseased bone marrow with healthy, functioning bone marrow for patients with blood diseases such as aplastic anemia;

replace bone marrow damaged by high-dose chemotherapy or radiation therapy used to treat patients with a variety of cancers such as leukemia and lymphoma; and

provide genetically healthy and functioning bone marrow to treat patients with genetic diseases such as sickle cell anemia.

Hematopoietic stem cell therapy has been successfully employed in the treatment of a variety of cancers and other serious diseases, beginning with bone marrow transplants that were first pioneered in the 1960s. In 2002, 45,000 hematopoietic stem cell transplants were performed worldwide, corresponding to a market size of roughly \$900 million, based on an average cost of cellular material per treatment of \$20,000. Many more patients needed transplants, but suitably compatible cells could not be found. We believe that CB001 will provide a more effective treatment with fewer side effects and faster recovery than current therapies and will enable this therapy to reach more patients in need.

Current scientific and clinical research indicates that stem cells have tremendous promise in the treatment of diseases in addition to those currently addressed with hematopoietic stem cell therapy. Researchers have reported progress in the development of new therapies utilizing stem cells for the treatment of cancer, cardiac, neurological, neuromuscular, immunological, genetic, pancreatic, liver and degenerative diseases. We estimate that the potential market for all stem cell therapies could be as high as \$30 billion to \$50 billion.

The success of current and emerging stem cell therapies is dependent on the presence of a rich and abundant source of stem cells. Umbilical cord blood has emerged as an excellent source for these cells. As information about the potential therapeutic value of stem cells has entered the mainstream, and following the first successful cord blood transplant performed in 1988, cord blood collection has grown rapidly. In the last two years, the family cord blood preservation market has more than doubled, with an estimated 70,000 families banking their newborn's cord blood in 2003 for family use.

We estimate that, in 2003, 1.7% of the 4 million US birthing families chose to preserve their child's umbilical cord blood. Over the past three years, the number of customers in this industry has grown

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significantly. We believe that the total available target market could grow to 25% of US births, representing a domestic opportunity of approximately \$1.5 billion in revenue, driven by:

increased awareness about the availability and benefits of preserving cord blood;

growing endorsement by the medical community;

new applications for cell therapy; and

potential for expanding the number of stem cells in a single unit of cord blood, making it possible to treat larger, adult patients or multiple patients within a family.

Another opportunity in the use of cells for therapy relates to oocytes which are female egg cells essential to reproduction. The ability to preserve these cells outside the body could be a significant breakthrough in the field of reproductive health with multiple applications in infertility (extending fertility and preventing infertility).

Women choosing to extend their fertility represent a large segment of our market opportunity. In the United States and elsewhere in the world, more women are choosing to have children later in life: the average age for a woman having her first child is almost 25, increasing from age 21 in 1970. This trend is driven in part by rising birth rates for women in their 30's and 40's. Despite this trend, female fertility actually begins to decline at around age 26, and declines more rapidly after age 35. Declining oocyte viability due to the natural aging process is one of the major factors contributing to compromised fertility in women. Cryopreservation stops the aging of cells, and could allow a woman to have a child later in life, using one of her own younger and potentially healthier oocytes. There are approximately 12 million women in the United States between the ages of 26 and 36 who would be potential users of this product.

We may choose to initially market the product to women undergoing cancer treatment, as this represents an important unmet medical need. Chemotherapy and radiation treatment for cancer can negatively affect a woman's ability to produce healthy eggs. Women diagnosed with cancer could preserve their oocytes prior to undergoing or immediately following chemotherapy or radiation in order to preserve their ability to have a child in the future. Approximately 20,000 women of reproductive age have cancers which may result in loss of fertility and for which hormone stimulation is not contraindicated.

Other significant market opportunities for oocyte cryopreservation include using our product candidate to aid women (or couples) who require IVF, but who have ethical concerns about embryo cryopreservation.

We estimate that the market for this product will exceed \$350 million in the United States within five years after launch.

Current Limitations of Cellular Therapy

Despite the proven clinical utility of hematopoietic stem cell therapy and the potential to use other types of cellular therapies to treat and cure disease, widespread application of cellular therapy is presently hindered by the following factors:

Lack of Compatible Stem Cells

Stem cell therapy is dependent on the recipient's body accepting the newly transplanted stem cells, thus facilitating the production of the targeted cells. This acceptance is contingent on the transplanted cells looking similar, at a molecular level, to the patient's own cells. Cellular similarity is measured by the presence of certain cell surface molecules known as human leukocyte antigens, or HLA. Host cells recognize the HLA pattern of the transplanted stem cells and will either accept the cells if the HLA match is close, or reject the cells if the HLA profile is not close enough. In hematopoietic stem cell transplantation, HLA mismatching can also give rise to a very serious condition called graft-versus-host disease, or GVHD. GVHD is an attack by the transplanted immune cells on tissues of the host resulting in severe disease, significant disability and often death. As a result, time consuming and expensive searches of a donor registry are often required to locate compatible donors for bone marrow or cord blood stem cell

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transplants. Due to these difficulties, and others, many patients seeking transplants of hematopoietic stem cell from non-related individuals actually receive stem cells.

Difficulties Collecting Stem Cells

In general, harvesting sufficient quantities of stem cells from a donor or a patient is extremely difficult. All current methods of obtaining hematopoietic stem cells for therapy have significant limitations. Stem cells can be collected from bone marrow through a painful, costly and invasive surgical procedure. There are not enough donors registered and, when called upon, a large number of donors fail to follow through with the procedure.

Stem cells can also be collected from blood of the circulatory system through a procedure in which drugs are injected into the donor to stimulate the movement of stem cells from the bone marrow into the blood stream, where they can be harvested and then separated from the whole blood. This procedure is time-consuming and uncomfortable for the donor.

Umbilical cord blood is also rich in stem cells, but the volume of blood collected is limited. Although there are banks of cord blood available for transplant, units are often too small to be suitable to treat adult patients.

Stem cells can also be derived from human embryonic tissue. However, their utility is presently technically limited and is hampered by ethical and regulatory issues that restrict their use.

Insufficient Number of Stem Cells

The number of stem cells collected from any particular tissue source is typically low compared to the quantity required for therapeutic benefit. The likelihood and speed of successful stem cell engraftment are directly related to the number of stem cells transplanted. Consequently, the ideal approach to a successful transplant is to use a large number of stem cells. Researchers have been working for decades on methods for expanding populations of donated stem cells, but their efforts have been largely unsuccessful.

Most attempts to increase the number of stem cells involve methods of growing or culturing stem cells in batches. Batch production of stem cells is not effective because differentiated cell populations outgrow stem cells and create by-products that hinder the growth and maintenance of stem cells. Few stem cells, if any, are produced using this process. Mixed populations of cells that result are also difficult to characterize, creating the possibility of clinical side effects as compared with a pure stem cell population. Furthermore, batch production of cells is expensive; large amounts of materials and production capacity are required to accommodate large cultures necessitated by the low concentration of stem cells.

Variability in Quality and Composition of Stem Cell Products

Bone marrow, processed circulating blood and umbilical cord blood are crude mixtures of largely differentiated cells with small numbers of stem cells, contributing to unpredictability in clinical responses. Cord blood samples, for example, vary in stem cell count as well as composition. Because stem cells harvested from bone marrow are collected from individuals of different ages in various states of health, the stem cell quality and consistency is affected. Additional variability arises from inconsistencies in handling and processing in different transplant centers.

Difficulties in Preserving Oocytes

While methods for preserving sperm and embryos are well-established and have been utilized in *in vitro* fertilization procedures for the past three decades, methods for preserving oocytes have not been widely employed due to difficulties encountered in freezing this cell. The oocyte is the largest cell in the body and, due to its large liquid volume, tends to form ice crystals during the freezing process. Formation of ice crystals can damage this cell, making it unsuitable to develop into a healthy embryo. These obstacles represent a significant barrier to the preservation of oocytes for treatment of chemotherapy-treated, donor-recipient IVF and age-related infertility patients. Recently developed methods for oocyte cryopreservation, including vitrification (rapid cooling) and slow cooling, have improved oocyte survival

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rates compared with past methods but have not been able to reliably maintain functional integrity of cells after thawing.

Our Solutions in Cellular Therapy

We have developed proprietary technologies that we believe will overcome the barriers to the widespread use of cellular therapies. Using our novel stem cell expansion technology, Selective Amplification, we significantly expand populations of stem cells producing highly purified, highly defined stem cells in clinically useful quantities. We believe that this breakthrough has the potential to enable important new treatments for a broad range of cancers and other serious diseases.

Our Selective Amplification technology involves the expansion of stem cell populations using growth stimulating factors together with cycles of purification to remove differentiated cells using antibodies that target proteins on their surface. By repeating growth and purification cycles, we are able to greatly expand highly defined populations of stem cells in what we expect to be a commercially feasible system.

We are focusing our initial clinical efforts on developing CB001, a hematopoietic stem cell therapeutic comprised of expanded cord blood stem cell population. We designed CB001 as a replacement for bone marrow and other crude cell mixtures currently used in hematopoietic stem cell transplants under the current standard of care. We believe that expanding hematopoietic stem cells through Selective Amplification can overcome the current limitations of hematopoietic stem cell therapy by:

Increasing the Likelihood of Locating Compatible Stem Cells. Most cord blood units collected, preserved and stored do not contain sufficient stem cells to treat an adult patient. Through Selective Amplification, we believe we will be able to expand the number of stem cells contained in each unit so that every unit is potentially suitable to treat any patient, regardless of size, or multiple patients. In addition to size limitations, HLA matching limitations exist particularly for racial minorities that are proportionally under represented in current inventories. If every cord blood unit that is collected, preserved and stored can be expanded, the likelihood of locating compatible stem cells is increased.

Obtaining Stem Cells From an Abundant Source. Umbilical cord blood contains a rich supply of stem cells. With approximately 4 million births per year in the United States, cord blood represents a large, natural resource provided it can be efficiently and cost-effectively converted into standardized medicine. With the use of Selective Amplification, we believe that this source will be more than adequate for patients of all sizes and all racial and genetic backgrounds and for treating a large variety of disease indications.

Increasing the Number of Stem Cells. We have increased hematopoietic stem cell populations by up to 150-fold, with an average of 70-fold expansion within a 14-day period. The potency of a cord blood unit has been correlated with the number of hematopoietic stem cells in the graft. The number of stem cells in an average cord blood unit are generally considered to be insufficient to engraft an adult by a factor of 2 to 10. The increase in stem cell populations that we have achieved may therefore be highly significant in producing therapeutic effects.

Producing Stem Cell Products of a Consistent Quality. We believe that Selective Amplification can be incorporated into a robust manufacturing process that provides a consistent, highly defined stem cell product. As hematopoietic stem cell populations grow, they produce differentiated cells that dilute the therapeutic population of stem cells. Using selection techniques that eliminate differentiated cells from the cell population, we are able to maintain high purities in our candidate cell products. In addition to our Selective Amplification technology, we are developing other technologies, especially those based on the propagation of Unrestricted Somatic Stem Cells (USSCs), that we expect to have therapeutic potential in cardiac repair, muscular dystrophy and other indications.

Additionally, we believe that the current limitations associated with cellular therapy for the treatment of infertility can be overcome by effectively preserving and storing oocytes.

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Effectively Preserving and Storing Oocytes. We have institutionalized a high quality process for preserving and storing umbilical cord blood stem cells, which we believe we can leverage to develop and launch our proprietary oocyte cryopreservation product candidate. Results to date have demonstrated that we have the ability to predictably cryopreserve oocytes and will soon be in a position to leverage our significant sales and marketing experience in the field of reproductive health to provide women with the choice of preserving their fertility.

Our Business Strategy

We believe that we have the infrastructure in place, combined with proprietary technologies and strategic partnerships, to be a leader in cellular therapy and reproductive health.

We intend to use our existing assets to implement a business strategy having the following principal elements:

Demonstrate the Clinical Benefit of and Obtain Approval for our Lead Stem Cell Product Candidate, CB001

We are seeking to establish the clinical and therapeutic validity of our Selective Amplification technology by initially developing CB001 for hematopoietic cell transplantation, currently the most widely used form of stem cell therapy. We believe that seeking approval for a product which addresses an established market and is a highly purified and characterized version of an existing therapy represents the most rapid and low risk route to commercialization of our technology. Focusing on the hematopoietic market also allows us to demonstrate the potential of our lead stem cell product candidate, CB001, to significantly improve patient health while addressing a large, unmet need in the marketplace.

Leverage our Technology to Commercialize Additional Products to Effectively Treat and Potentially Cure Patients with Unmet Clinical Needs

We intend to follow the advancement of CB001 with the development of products for indications historically not treated with stem cell therapy. While research has demonstrated the potential for applying stem cell technology to a number of indications, such as diabetes and heart disease, advancement in these areas has been slow. We believe our Selective Amplification and other technologies can overcome the limitations which have to date prevented the successful application of stem cell therapies in these areas. We have active programs for the development of cell therapies for cardiac disease, muscular dystrophy, diabetes and other disease areas.

Leverage the Growth of ViaCell Reproductive Health to Provide Financial Stability and Create Additional Value

We intend to leverage the cash flow and assets generated from our reproductive health activities to provide financial stability. Viacord's processing and storage revenue has grown rapidly, with an increase in revenues of 54% in 2003 over 2002. We intend to continue to invest in the reproductive health area, expand our obstetrician and consumer-directed education and marketing programs and build a presence in Europe and potentially other markets. In addition, we plan to further leverage our investments in these areas with the launch of our oocyte cryopreservation product candidate, which is anticipated in the next two years.

Continue to Develop and Grow Areas of Our Business that are Complementary to Each Other

Our stem cell therapy product candidates are expected to make use of the readily available source of stem cells present in umbilical cord blood. We offer cord blood preservation to customers who want to preserve this blood to take advantage of these therapeutic products in the future. The storage of cord blood from related individuals greatly increases the probability of an HLA match and, when combined with our expansion technologies, potentially allows whole families to benefit from banked stem cells. In addition, our cord blood preservation product has established our presence in the reproductive health field. Leveraging our

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presence in this field and our cryopreservation expertise, we have in-licensed technology which allows the preservation of the human oocytes in a frozen state. We intend to develop and commercialize this technology within our existing commercial infrastructure by leveraging the assets invested in this business, and we may seek to expand our business in other complementary areas in the future.

Continue to Build Strategic Business Relationships

We believe that our Selective Amplification and other technologies have extremely broad potential applications. While we are focused on the development of our own proprietary therapeutic product portfolio using these technologies, we will seek to partner with third parties to develop other applications of these technologies. These could include applications that fall outside our core areas of interest, or applications where the involvement of a strategic partner may significantly improve the chances of commercial success. An example of the latter is our recent collaboration with Amgen. Where strategically advantageous, we will continue to look to structure high value collaborative relationships with industry leaders. We intend to pursue collaborations with companies that possess the resources and expertise to develop and commercialize products for indications outside the scope of our internal development programs.

Strategically In-License or Acquire Complementary Products, Technologies and Businesses

We intend to supplement our product development efforts through the acquisition of products and technologies that support our business strategy. An example of this is our acquisition of Kourion Therapeutics AG completed in September 2003, pursuant to which we gained access to Unrestricted Somatic Stem Cells (USSCs). The acquisition of Kourion Therapeutics also enabled us to establish a presence in Europe, which we intend to leverage as we establish our reproductive health products in Europe. Also in 2003, we exclusively in-licensed an oocyte preservation technology that is highly complementary to our presence in cord blood preservation. This technology is expected to allow women, for the first time, to preserve their fertility. In the future, we may pursue additional strategic acquisitions of technologies, product candidates and businesses to further strengthen or expand our current programs.

Our Technology

Selective Amplification Our Method to Expand Stem Cell Populations

We have developed a proprietary technology called Selective Amplification that we use to isolate stem cells from mixtures of cells and selectively expand them in a controlled manner. Selective Amplification combines principles of engineering and biology. Our process uses growth factors to promote the growth of stem cells and a mixture of antibodies to purify them by removing unwanted differentiated cells that are produced naturally as a by-product of stem cell growth. Differentiated cells cause feedback inhibition that results in loss of stem cells when using conventional methodologies involving batch cultures. Selective Amplification uses growth and purification techniques concurrently and iteratively to control and optimize growth of the stem cell population. Different stem cells can be grown and purified by using different combinations and concentrations of growth factors and antibodies, and by selecting at different time points creating a range of potential cellular products.

The Selective Amplification process is described below:

Purification. We initially purify a population of cells containing targeted stem cells using a specially formulated mixture of antibodies. These antibodies bind to the surface of unwanted, differentiated cells but not to targeted stem cells. We then mix magnetic particles, which link to the antibodies on the surface of the differentiated cells, with the cell preparation. We then expose the cell preparation to a specially designed magnet, which removes the magnetic particles along with the antibodies and differentiated cells to which they are connected. This method of purification is referred to as negative immuno-magnetic selection because the target stem cells remain in the culture, unaffected by the antibodies or magnetic particles, while the unwanted differentiated cells are removed.

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Growth. Following the initial purification of the target stem cell population, we place the cells into a liquid culture containing appropriate growth media. We then allow the culture to grow. During this time, the stem cells divide, producing both additional undifferentiated stem cells as well as differentiated cells.

Re-purification. After a specified growth period we re-purify target cells using negative immuno-magnetic selection. Re-purification both removes the differentiated cells and eliminates their deleterious impact on the target stem cell population.

Repeated Cycles of Growth and Purification. We repeat the growth and purification cycles at specified time points to optimize and control the expansion of the stem cell population and largely eliminate differentiated cells. This technique minimizes culture size and consumption of antibodies, growth factors and media, making it more cost effective than conventional cell culture techniques.

Harvest, Characterize and Package. After a final step of reselection and growth, the amplified target cells will be harvested, characterized and packaged for use.

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The Selective Amplification process results in a highly characterized population of stem cells. Systems for the selection of cells and techniques to culture cells to expand populations have existed for decades. Our patented Selective Amplification technology employs the combination of selection with growth. We believe that the proprietary methods we have developed will greatly limit the ability of others from selecting cells that are being or have been expanded.

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Unrestricted Somatic Stem Cells (USSCs) Our Proprietary Type of Stem Cell

To date researchers have identified many different types of stem cells from many sources. These include, for example, embryonic stem cells from embryos, neural stem cells from the brain, hematopoietic stem cells from bone marrow and pancreatic islet stem cells from the pancreas. Each type of stem cell appears to have its unique properties and the overall properties of different stem cells can be quite diverse. For instance, some propagate well but are difficult to differentiate efficiently, some differentiate efficiently but are difficult to propagate; some appear to be unipotent in that they can only make one class of tissue, while others appear to be pluripotent in that they can make a variety of tissue types.

We are developing applications of a proprietary type of stem cell called Unrestricted Somatic Stem Cells (USSCs) derived from umbilical cord blood. USSCs are a pluripotent class of stem cells that differentiate into many cell types *in vitro*, including fat, bone, cartilage and precursor neuronal cells. Furthermore, evidence in animal models suggests that this cell type is capable of differentiating *in vivo* in many tissue types as shown by distribution and function of human cells in the liver, bone, bone marrow, brain and heart of transplanted animals. We believe that USSCs will be an important starting population to produce a variety of cellular medicines. Patents are pending on therapeutic uses and compositions of matter for this previously undiscovered cell type. The discovery that such cells exist in cord blood may solve major concerns about matching non-hematopoietic cell products into diverse patient populations without graft rejection or the use of immune-suppression, as large reserves of banked cord blood units provide suitably matched source material. We are currently developing this technology in the indication of cardiac disease.

The addition of the USSC technology into our portfolio is complementary to both the cell therapy and reproductive health aspects of our business. With USSCs, we believe we will have the raw material to develop products for additional critical indications involving diseases of the liver, muscle, bone marrow, pancreas, brain and heart. We believe that the controlled *in vitro* production of specific cell products from USSCs may benefit from the use of our patented Selective Amplification technology. We also believe that further development of USSCs provides the potential for tremendous additional value to our cord blood preservation customers who may need to access such cells from their stored cord blood for future medical applications.

Trehalose Injection Our Method to Cryopreserve Oocytes

We have exclusively in-licensed technology that we believe will significantly enhance the successful cryopreservation of human oocytes. Research studies in yeast and mammalian cells have demonstrated that this technology offers greater promise than existing methods. Our technology involves the injection of a naturally occurring sugar into the cell, in order to protect cells from damage during freezing. The sugar, called trehalose, has demonstrated the ability to protect oocytes during cryopreservation, maintaining the integrity of the cell's membranes, proteins and genetic material. We are currently engaged in pre-commercial development of this technology. Our current efforts are focused on optimizing and standardizing this patented procedure.

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The following table summarizes our product and pipeline of programs:

| Product/Program | Intended Use | Status |
|-------------------------|---|-----------------------|
| Hematopoietic (CB001) | Hematopoietic stem cell transplantation for a variety of cancers and other serious diseases | Phase I/II |
| Viacord | Pediatric hematopoietic stem cell transplantation for the donor and siblings | Marketed |
| Muscular Dystrophy | Duchenne s and other forms of muscular dystrophy | Preclinical |
| Oocyte Cryopreservation | Preservation of fertility | Development Stage |
| Cardiac Disease | Congestive heart failure Myocardial infarction | Preclinical |
| Other | Diabetes/ Stroke | Preclinical/ Research |

Hematopoietic Program (CB001)

Background/Target Market. Hematopoietic stem cell therapy is an accepted medical procedure that provides for regeneration of blood and immune systems in patients for the treatment of cancer and other serious genetic and acquired diseases. Patients requiring this type of therapy are typically very sick. The treatment is usually undertaken when there are few, if any, alternatives, and consequently patients needing therapy who do not obtain it often die. In 2002, clinicians performed approximately 45,000 hematopoietic stem cell transplants in the United States using cells obtained from bone marrow, peripheral blood and, to a lesser extent, umbilical cord blood.

CB001 consists of a highly concentrated and purified population of hematopoietic stem cells which were selectively amplified from umbilical cord blood that we currently obtain from public cord blood banks. Because of its high stem cell concentration and purity relative to transplant mixtures obtained from other sources, we believe that CB001 will provide a more effective treatment with fewer side effects and faster recovery. In particular, we believe that the administration of CB001 will result in less GVHD, often a severe complication of transplant therapy and accelerate hematopoietic reconstitution which drives the generation of early neutrophil recovery. Neutrophils are the body s first defense against infections. Early neutrophil recovery is associated with fewer opportunistic infections and a reduced length of hospital stay. Our belief that treatment with CB001 may result in lower incidence of GVHD and enhance early neutrophil recovery is based on the historically low incidence of GVHD when using cord blood as a transplantation source, in combination with the expectation that more stem cells will increase the rate of engraftment, an assumption based on extensive clinical data reported in the literature to that effect. Furthermore, because of its attributes, we believe CB001 has the potential to significantly expand the market for stem cell therapy to new indications.

Program Status. In preclinical studies, we have demonstrated that CB001 has no acute toxic effects when injected into mice at doses comparable to and higher than that planned in the clinical trial program. We have also shown that the components used to manufacture CB001 are non-toxic when tested in a variety of laboratory tests and standard animal models. In addition, we have demonstrated that when CB001 is injected into a special immunocompromised mouse breed, CB001 goes to the bone marrow of the mice, and human hematopoietic and immune cells grow and appear in the blood of the mice, indicating that CB001 contains functional stem cells.

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We submitted a clinical protocol and other supportive information to our Investigational New Drug application (IND) with the US Food and Drug Administration (FDA) in November 2003 and are currently enrolling patients in a Phase I/ II clinical trial to assess the safety and preliminary clinical efficacy activity of CB001. Our Phase I/ II study will initially be limited to ten patients. The patient population eligible for participation in this trial includes older adolescent (16 and 17 year olds) and adult patients with a acute leukemia and myelodysplastic syndrome. The patients will receive CB001 plus a standard cord blood transplant (derived from different donors) following high dose chemotherapy and radiation therapy. The patients will be closely monitored to ensure their safety, and all adverse events will be reported to the FDA and institutional review boards following standard procedures and regulations for a Phase I/ II clinical trial. When new hematopoietic cells begin to grown (engraft) in the patients, we will be able to differentiate between cells coming from CB001 and cells coming from the standard cord blood due to genetic differences in the two types of donor cells. We estimate that the time required to enroll and treat patients and complete patient follow-up will be approximately 12 months. The data generated from this trial will be used to support Phase II clinical trials.

If there are no significant safety issues related to CB001 and there is evidence of CB001 engraftment in the Phase I/II clinical trial, then we will initiate Phase II clinical trials. If evidence of long-term engraftment with CB001 is shown in the Phase I/II clinical trials, we plan to conduct Phase II clinical trials designed to demonstrate that CB001 can serve as a sole source of hematopoietic stem cells in patients requiring hematopoietic stem cell transplantation. However, the Phase I/II clinical trial may not provide evidence of CB001 engraftment due to competition between CB001 and the standard cord blood transplant. If there are no significant safety issues in the Phase I/II clinical trial but CB001 engraftment is not shown, then we may need to perform additional pre-clinical and/or clinical studies prior to commencing the Phase II clinical trials. If phase II clinical trials show strong evidence of efficacy and a favorable safety profile, we will consider filling an Accelerated Approval application with the FDA based on the Phase II data. Phase III clinical trials will be designed to demonstrate superiority of CB001 compared to standard transplantation methods. We will select the Phase III clinical trial outcome measures to establish that CB001 is superior to standard stem cell sources based on clinically meaningful endpoints. In addition, we intend to subsequently seek regulatory approval for CB001 in other countries.

Viacord

Our Viacord product involves the collection, testing, processing and preserving of umbilical cord blood. Our customers are expectant parents who choose to collect and store umbilical cord blood at the birth of their child for potential use in a pediatric hematopoietic stem cell transplantation for the donor and family members. We have established a leading position in this emerging field, with approximately a 40% share of the market based on revenues. We estimate that, in 2003, 1.7% of the 4 million birthing families chose to preserve their child's umbilical cord blood. Over the past three years, the number of customers in this industry has grown significantly. We believe that the total available target market could grow to 25% of US births, representing a domestic opportunity of approximately \$1.5 billion in revenue.

Family cord preservation has been growing in acceptance by the medical community and has become increasingly popular with families. To date, we have performed facilitated collections at over 2,000 hospitals in the United States. We currently store approximately 47,000 cord blood units for customers. We provide the following services to each customer:

Collection. We provide a kit that contains all of the materials necessary for collecting the newborn's umbilical cord blood at birth and packaging the unit for transportation. The kit also provides for collecting a maternal blood sample for later testing.

Comprehensive Testing. At the laboratory, we conduct several tests on the cord blood unit which are essential in the event the unit is ever needed for transplant. These tests include volume collected, number and viability of nucleated cells, sterility, blood typing and the percent of stem cells. The maternal blood sample is tested for infectious diseases.

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Processing. At our state-of-the-art laboratory, we process the cord blood using a process designed to maximize the number of stem cells preserved.

Cryopreservation. After processing and testing, we freeze the cord blood unit in a controlled manner and store it using liquid nitrogen. Data indicates that cord blood retains viability and function for approximately 15 years when stored in this manner and theoretically could be maintained at least as long as the normal life span of an individual.

We believe that Viacord product complements our ability to deliver cellular medicines by providing:

experience in providing banked umbilical cord blood for stem cell transplantation, with thirteen of our customers' umbilical cord blood units used in transplantations;

strong relationships in the cell therapy community, including leading transplant centers;

expertise in cord blood collection, testing and preservation; and

overall financial stability.

Moreover, we believe that the advancement of hematopoietic stem cell therapy, and the introduction of new stem cell therapies, will further drive demand for cord blood products.

All of our processing and storage of cord blood products is handled at our own state-of-the-art cord blood processing and storage facility located in Hebron, Kentucky.

Muscular Dystrophy Program

Background/Target Market. Muscular dystrophy represents a group of inherited diseases characterized by dysfunction and loss of muscle cells, resulting in progressive muscle weakness and disability. These diseases are generally caused by a missing or defective protein within muscle cells. For example, Duchenne's muscular dystrophy results from insufficient dystrophin within the muscle cells. Duchenne's muscular dystrophy occurs in roughly 1 in 3,500 male births worldwide. There is currently no therapy to reverse or slow the effects of muscular dystrophy, which usually results in death between ages 15 to 20. However, recent work by academic researchers has shown that transplanted hematopoietic stem cells restore sufficient dystrophin in a mouse model of Duchenne's muscular dystrophy. These findings suggest that cord blood stem cells expanded through Selective Amplification may be effective in treating Duchenne's muscular dystrophy and other forms of muscular dystrophy.

Program Status. We are currently exploring the effects of USSCs and Selectively Amplified umbilical cord blood stem cells in mouse models of muscular dystrophy. We are conducting these studies in collaboration with researchers at Massachusetts General Hospital and Children's Hospital in Boston. Preliminary results in rats and mice confirm that following injection, stem cells integrate into the damaged muscle and produce the appropriate proteins missing in the diseased tissue. These studies have been extended to determine the optimal dosing and route of administration to be used in our initial human clinical trials. We expect to file for a clinical trial authorization for muscular dystrophy in 2005.

Oocyte Cryopreservation Program

Background/Target Market. Our cryopreserved oocyte product candidate represents a significant breakthrough in the area of reproductive medicine, providing women the opportunity to extend or protect their fertility, or obtain donor oocytes for IVF. However, to date, oocyte cryopreservation has not been widely practiced because cells become damaged by the freezing or thawing process using current methods. There are approximately 12 million women between the ages of 26 and 36 who would be potential users of this product. We estimate that the market for this product will exceed \$350 million in the United States within five years after launch. We have exclusively sublicensed a patented method from Gamete Technology that was developed at Massachusetts General Hospital that we believe will significantly enhance the success in cryopreserving human oocytes.

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We believe that the cryopreserved oocyte product candidate complements our existing Viacord product by:

using our existing operational infrastructure and facilities, including our cell processing and storage facility in Hebron, Kentucky where long-term storage of oocytes would be maintained; and

utilizing our sales, marketing and clinical support staff and our current marketing channels to educate consumers and healthcare professionals, including obstetricians, gynecologists, and oncologists.

We believe that oocyte preservation represents an attractive opportunity for us to expand on our commitment to offer innovative options to patients and physicians related to reproductive health.

Program Status. We are currently engaged in development of this technology. Our efforts are focused on optimizing and standardizing this patented procedure for microinjecting cryoprotectant into oocytes and maintaining maximum cell viability following cryopreservation. We intend to commence a human clinical study to demonstrate healthy live births from previously frozen oocytes in 2005. Following successful completion of these activities, which we estimate will take two years, we intend to offer this product through IVF Centers in the United States and abroad.

Following successful development of this technology, we anticipate that our first sales and marketing efforts will be directed to the donor-recipient and oncology market segments. We also plan to commercialize the cryopreserved oocyte product candidate for oocyte preservation and storage for women seeking to extend their own fertility. These products will be marketed and sold by ViaCell Reproductive Health, leveraging our Viacord field sales personnel (clinical specialists) and marketing infrastructure.

Cardiac Disease Program

Background/Target Market. Acute myocardial infarction, or heart attack, occurs when the blood supply to part of the heart muscle is severely reduced or stopped. This occurs when one of the heart's arteries is blocked by an obstruction, such as a blood clot that has formed on a plaque formed by arteriosclerosis. If the blood supply is cut off drastically or for a long time, heart muscle cells suffer irreversible injury and die. There are approximately 1.3 million cases of myocardial infarction each year in the United States, with fatal outcome for about half of these. Many patients who survive develop a chronic form of heart disease called congestive heart failure (CHF) which is associated with a progressive deterioration of the heart muscle. About 2.4 million patients suffer from CHF in the United States.

Although patient survival rates have been improved by using catheters or drugs to remove thrombotic occlusions (blood vessel blockages), there is no proven therapy for repairing or regenerating damaged heart tissue. Recent clinical data obtained with crude preparations of stem cells isolated from the patient's own bone marrow, however, indicate that cardiac function can be significantly improved by the application of stem cells. Based on these clinical studies and our preclinical investigations, we believe that USSCs may regenerate damaged heart tissue and may be an effective, standardized product for heart repair.

Program Status. We are currently evaluating USSCs in mouse and pig models of CHF and myocardial infarction in collaboration with researchers at the Toronto University Hospital, Canada and at the Wolfgang Goethe University, Frankfurt, Germany. These experiments will allow us to evaluate the ability of USSCs to repair damaged heart tissue in these animals and determine the dose and route of administration to be used in our initial human clinical studies. We expect to file for a clinical trial authorization in 2006.

Other Programs

Research Stage Programs. In addition to our programs described above, we also have research-stage programs targeting applications in diabetes and stroke recovery. Our diabetes program uses a novel population of stem cells isolated from pancreas that can be significantly expanded in culture. To date, we have successfully expanded these pancreatic stem cells and demonstrated the ability of these cells to

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produce insulin in mouse models of diabetes. Our stroke program uses a novel stem-cell-stimulating protein that would potentially be administered to a patient following stroke. To date, we have demonstrated this protein's ability to enhance physical and neurological recovery in rat and mouse models of stroke, when administered alone or in combination with stem cells. Both our diabetes program and our stroke program are based on technologies that have been licensed to us from Massachusetts General Hospital.

Other Potential Applications. In addition to the applications we are pursuing, we believe that our Selective Amplification and USSC technologies may be applied to treat a wide variety of other diseases, including autoimmune and other immune system disorders, and other degenerative disorders, as well as genetic diseases such as sickle cell anemia and various metabolic diseases.

Sales And Marketing

Viacord. Our ViaCell Reproductive Health sales and marketing organization consists of 75 sales and marketing professionals supporting our Viacord product. Our staff of 30 internal sales personnel interact with over 20,000 potential customers per month and enroll those customers who decide to purchase our Viacord product. We have an expanding field sales organization, with representatives in territories which cover 800 of the 1,000 largest birthing centers in the United States who educate obstetricians, child birth educators, hospitals and insurers on the importance of cord blood preservation. In addition, our marketing staff targets two primary segments: high-birthing obstetrics practices and expectant families. We target expectant families through many mediums including targeted advertising, direct mail and web-based marketing activities that collectively generate more than 20,000 new inquiries to ViaCell Reproductive Health each month.

Oocyte Preservation. We plan to market and sell our oocyte cryopreservation product using our ViaCell Reproductive Health sales personnel and marketing infrastructure where possible. In addition, we plan to develop a specialty sales force to educate reproductive endocrinologists and other medical professionals at IVF centers throughout the United States about the benefits of and medical need for this product. We plan to use our internal clinical consultants in our call-center to answer questions and provide support to customers purchasing or considering to purchase our products. We may also consider potential strategic partnerships in marketing these products.

Cell Therapy Products. We plan to sell our cell therapy products principally through our own sales force, leveraging our ViaCell Reproductive Health sales and marketing infrastructure where possible. On any products which Amgen has elected to collaborate (which may include CB001 or any other of our products incorporating Amgen technology), Amgen will be responsible for regulatory matters, marketing and selling activities. We may also enter into co-marketing, licensing or other arrangements with other third parties in order to gain access to their marketing resources and distribution network in specific markets.

Manufacturing and Cell Processing

We believe that commercial manufacturing of stem cell products will be strategically important to us. In order for us to ensure strict quality control, identify and leverage cost-efficiencies, and build deep expertise in expansion and processing of cells, we intend to own and control all aspects of the cell production process. We believe that manufacturing capabilities will contribute significantly to our ability to achieve leadership in our industry.

We currently produce cells for our initial clinical trials in our cell facility in Worcester. This facility, which we constructed in 2000, was designed to conform to FDA cGMP regulations and standards for Phase I/ II trials, and includes approximately 3,000 square feet of space. Within the next 12 to 18 months, we intend to construct a larger scale, validated and cGMP-compliant production facility at our new headquarters in Cambridge, Massachusetts which we will use to produce cells for pivotal Phase III trials and initial commercialization.

Additionally, we currently process, test and preserve umbilical cord blood at our facility in Hebron, Kentucky. This facility, which we constructed in 2002, is designed to operate following Good Tissue

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Practice (GTP) regulations and guidelines, and includes approximately 12,000 square feet of processing and storage space. We anticipate that this facility will meet all our needs for Viacord and, potentially, for storage of oocytes for the foreseeable future. Managers of this facility have extensive experience in operations management, blood banking, biologics and medical device manufacturing, and maintain active programs to achieve continuous improvement in cost and process quality.

We believe that the cell processing and operational capabilities that we have developed in cord blood preservation will strengthen our ability to achieve leadership in the commercial manufacture of stem cell products.

Collaborations, Licenses and Strategic Relationships

Our most significant collaboration, licensing and strategic relationships are described below:

Amgen

In December 2003, we entered into a license and collaboration agreement with Amgen under which we received a royalty-free, worldwide, non-exclusive license to certain Amgen stem cell growth factors for use as reagents in producing stem cell therapy products, and Amgen received an option to collaborate with us on any product or products that incorporate an Amgen growth factor or technology. Amgen can exercise its option for an unlimited number of products. Each time Amgen exercises a collaboration option, it must partially reimburse our past development costs based on a predetermined formula on the optioned product, share in the future development costs, and take primary responsibility for clinical development, regulatory matters, marketing and commercialization of the product. For each collaboration product that receives regulatory approval, Amgen will pay us a milestone for the first regulatory approval for the first indication of the product in the United States. The parties would share in profits and losses resulting from the collaboration product's worldwide sales. Either we or Amgen may later opt-out of any product collaboration upon advance notice; however, we will retain our license to the Amgen growth factors if either we or Amgen opts out of any product collaboration. Under this agreement, we can purchase cGMP grade growth factors manufactured by Amgen at a specified price. Upon the mutual agreement of both parties, we also may receive a license to additional Amgen growth factors or technologies that may be useful in stem cell therapy. The agreement terminates on the later of the expiration of the licensed Amgen patents or when no products are being co-developed or jointly commercialized between us and Amgen.

In conjunction with this license and collaboration agreement, Amgen made a \$20 million investment in our preferred stock. As part of this agreement, we may offer Amgen the right to make an additional investment of up to \$15 million in connection with a future strategic transaction by us that would further our collaboration with Amgen. Amgen also holds a warrant to purchase 560,000 shares of our common stock at \$12.00 per share as consideration for a previous license agreement that was superseded by this license and collaboration agreement.

GlaxoSmithKline and Glaxo Group

In January 2003, we obtained a worldwide, non-exclusive license from GlaxoSmithKline and Glaxo Group to four forms of TPO-mimetic for use as a reagent in producing stem cell therapy products, including CB001. We paid an initial fee of \$115,000 and 12,500 shares of our Series I preferred stock, and agreed to pay annual license maintenance fees over the next ten years totaling \$1.6 million and milestone payments potentially totaling \$2.1 million. Additionally, we will pay royalties on sales of any products using the licensed technology, creditable against any remaining maintenance fees. We are responsible for all manufacturing and related costs associated with our use of TPO-mimetic. The license extends for the life of the underlying technology patents, and we can terminate the license at any time upon 30 days' advanced notice. We did not incur any royalties and recognized \$165,000 of expenses in connection with the annual license maintenance fees. Costs associated with Series I preferred stock were charged to in-process technology for period ended December 31, 2003.

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Gamete Technology

In July 2003, we entered into an agreement with Gamete Technology under which we received exclusive, worldwide rights to a US patent and all of its foreign counterparts pertaining to cryopreservation of human oocytes, which Gamete Technology licenses from Massachusetts General Hospital. We have agreed to develop a product or products using this licensed technology, and upon commercialization will owe Gamete Technology royalties on the sales resulting both from the cryopreservation procedure and the storage of cryopreserved oocytes. On execution of the agreement, we paid Gamete Technology an upfront fee of \$25,000 and will potentially pay up to \$0.1 million in future milestone payments, a portion of which is creditable against royalty payments payable to Gamete Technology. We are required to spend at least \$2.5 million to develop this technology during the first eighteen months of the agreement, including fees of approximately \$0.8 million payable to Gamete. Unless earlier terminated by us upon six months' advance notice, the agreement expires as to each covered product on a product-by-product and country-by-country basis as the underlying patents in such country expire or, if it is later, ten years from the date of the first commercial sale of each product. We did not incur any royalties and expensed \$0.7 million in the development of human oocyte cryopreservation and paid Gamete \$0.4 million for the period ended December 31, 2003.

Genzyme

Our relationship with Genzyme includes financial support by Genzyme, as a repeated investor in our preferred stock, and marketing support in the area of ViaCell Reproductive Health. Genzyme has made several equity investments in our company, purchasing \$2.0 million worth of our Series I preferred stock in 2001, an additional \$1.5 million in 2002 and \$1.5 million worth of our Series J preferred shares in 2003. Genzyme Genetics has engaged its 80 genetic counselors to educate their patients who have received confirmatory genetic screening about our Viacord product, when appropriate and approved by the patient's physician, including distributing educational materials. Also, Jan van Heek, Executive Vice President of Genzyme, is a member of our board of directors.

Massachusetts General Hospital

In March 2002, the Company entered into a license agreement with Massachusetts General Hospital under which the Company received exclusive, worldwide rights to make, have made, use, sell, offer for sale, and import products based on patents (currently pending) covering inventions of Dr. Joel Habener pertaining to pancreatic stem cells for treatment of diabetes. In exchange for these rights, as part of this agreement, the Company committed to spend up to \$2.0 million in the first eighteen months of the agreement to achieve a defined set of research objectives which support pre-clinical development of a pancreatic stem cell product for the treatment of diabetes. As of December 31, 2003, the Company had spent approximately \$1.4 million on this project, and no further financial obligation relating to this commitment is remaining. Under this agreement, the Company was also obligated to reimburse MGH for \$53,300 in patent costs incurred to date, of which \$26,650 was paid in April 2002 and the remaining balance of \$26,650 was paid in April 2003. In addition, the Company shall pay certain amounts to MGH, contingent upon the achievement of certain milestones as defined in the agreement, totaling a minimum of \$0.9 million and shall pay royalties to MGH upon commercial sale of products covered under the license. We have not paid any royalties in connection with this agreement.

Recent Acquisition of Kourion Therapeutics

In September 2003, we acquired Kourion Therapeutics, a pre-clinical stage biotechnology company located in Langenfeld, Germany. Kourion Therapeutics identified USSCs, a stem cell type that can be isolated from umbilical cord blood and significantly expanded *in vitro*. USSCs have demonstrated the potential to differentiate into multiple other cell types, including bone, cartilage, muscle, heart and neural cells. Kourion Therapeutics currently has a staff of 20 (including 7 PhDs) engaged in research and development of USSCs and has active collaborations with academic institutions and investigators to evaluate USSCs in animal models of heart disease and bone fractures. By acquiring Kourion Therapeutics, we acquired key intellectual property rights to USSCs (covered by one US patent application, one

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international application and eighteen foreign applications) and other patent applications covering technology in the field of stem cell transplantation. Kourion Therapeutics has provided us with our program in cardiac repair, and provides a location from which to build our Viacord product in Europe.

In the acquisition, we issued to the former shareholders of Kourion Therapeutics 549,854 shares of our Series I convertible preferred stock, valued at approximately \$4.4 million. As potential additional consideration, we issued 241,481 additional shares of Series I convertible preferred stock to an escrow account (escrow shares) and reserved 289,256 shares of Series I convertible preferred stock (contingent shares) for possible issuance in the future. The escrowed shares will be released, and the contingent shares will be issued, immediately following the closing of a qualified public offering, which is an underwritten public offering of our common stock, including possibly the offering being made by this prospectus, at a price to the public of at least \$9.70 that results in net proceeds to us of \$50 million or more. At the end of September 2006, the escrowed shares will be returned to us and the 289,256 contingent shares will never be issued if either a qualified public offering, or a sale of the company, does not first occur. In the transaction, we also gave promissory notes totalling \$14.0 million to funds affiliated with MPM Asset Management LLC, who were the holders of all outstanding preferred shares of Kourion Therapeutics, which must be repaid by ViaCell upon the earliest to occur of an initial public offering of our common stock (including the offering under this prospectus), the sale of the company or September 2007.

If the contingent shares issue upon a change in control, the recipients of these shares will be issued an additional number of shares equal to 8% of the initial number of contingent shares issued compounded annually from the acquisition closing date to the date of issuance. Under the acquisition agreement, we are also obligated to make payments to Kourion Therapeutics former shareholders if and when the cardiac repair program we have assumed in the acquisition achieves certain milestones. Should all these milestones be achieved, including final FDA approval of the developed products, we would have to pay a total of \$12.0 million, either in stock or cash at the shareholder's option. The results of operations of Kourion Therapeutics are included in our consolidated financial statements from the date of acquisition. In addition, the financial statements of Kourion Therapeutics for the year ended December 31, 2002 and the nine months ended September 30, 2003 are included in this prospectus.

Intellectual Property

The protection of our intellectual property is a strategic part of our business. We currently own or have exclusively in-licensed the seven US patents identified below.

| Patent Number | Title | Expiration Date |
|-------------------------|---|------------------------|
| US Patent No. 5,674,750 | Continuous Selective Clonogenic Expansion of Relatively Undifferentiated Cells | 5/19/2015 |
| US Patent No. 5,733,871 | Methods for the Treatment of Neuronal Damage Associated with Ischemia, Hypoxia or Neurodegeneration | 3/30/2015 |
| US Patent No. 5,925,567 | Selective Expansion of Target Cell Populations | 5/19/2015 |
| US Patent No. 6,214,796 | Administration of Polypeptide Growth Factors Following Central Nervous System Ischemia or Trauma | 3/22/2016 |
| US Patent No. 6,338,942 | Selective Expansion of Target Cell Populations | 5/19/2015 |
| US Patent No. 6,429,012 | Cell Population Containing Non-Fetal Hemangioblasts and Method for Producing Same | 6/9/2017 |
| US Patent No. 6,673,607 | Microinjection of Cryoprotectants of Cells | 5/16/2021 |

Three of our owned and issued US patents are directed to methods of manufacturing target populations of primary cells for use as cellular medicines. These patents broadly cover the use of selection elements to select a target population of cells continuously, intermittently during, or after a culture phase. The Selective Amplification technology covered by these patents is core to the manufacture of our lead

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stem cell product candidate, CB001. These patents expire in 2015 if not extended. Corresponding international applications are pending.

Two of our exclusively in-licensed and issued US patents are directed toward the treatment of neuronal damage associated with ischemia, hypoxia or neurodegeneration and the administration of polypeptide growth factors following central nervous system ischemia or trauma, respectively. These patents establish a proprietary position to use certain growth factors for the recovery of neurological function after a stroke or other neurological damage that stimulate stem cells to aid in the repair of such injuries. These patents expire in 2015 and 2016, respectively. Corresponding international applications are pending.

One of our owned and issued US patents is directed to the method of making hemangioblast cells from a neonatal source. This patent broadly covers the derivation and growth of human hemangioblasts from a non-fetal source. This patent expires in 2017 if not extended. Corresponding international applications are pending.

One of our exclusively in-licensed and issued US patents is directed to the method of cryopreserving human oocytes. This patent is broadly directed at the injection of a cryopreservative into a human oocyte, treating it to enter into a dormant state and then storing it for future use.

We own two pending US patent applications directed to compositions and methods of using USSCs to treat a broad class of diseases and the use of umbilical cord blood in the treatment of neuro-muscular diseases such as muscular dystrophy.

Furthermore, we own outright or have exclusively in-licensed two international patents and thirty international patent applications. In addition, we have non-exclusive licenses to 30 US patents and patent applications and 86 foreign patents and patent applications, including patents covering growth factors used in our Selective Amplification process.

Patent rights and other proprietary rights are important in our business and for the development of our product candidates. We have sought, and intend to continue to seek patent protection for our inventions and rely upon patents, trade secrets, know-how, continuing technological innovations and in-licensing opportunities to develop and maintain a competitive advantage. In order to protect these rights, know-how and trade secrets, we typically require employees, consultants, collaborators, and advisors to enter into confidentiality agreements with us, generally stating that they will not disclose any confidential information about us to third parties for a certain period of time, and will otherwise not use confidential information for anyone's benefit but ours.

The patent positions of companies like ours involve complex legal and factual questions and, therefore, their enforceability cannot be predicted with any certainty. Our issued patents, those licensed to us, and those that may issue to us in the future may be challenged, invalidated or circumvented, and the rights granted thereunder may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies or duplicate any technology developed by us. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be approved for sale and commercialized, our relevant patent rights may expire or remain in force for only a short period following commercialization. Expiration of patents we own or license could adversely affect our ability to protect future product development and, consequently, our operating results and financial position.

Competition

We are aware of products manufactured or under development by competitors that are used for the prevention or treatment of diseases and health conditions which we have targeted for product development. Stem cell therapy competitors include commercial and development-stage companies offering devices and services for processing and producing stem cells derived from bone marrow, cord blood or mobilized peripheral blood for transplant, such as Aastrom Biosciences, Celgene, Cellerant, Gamida-Cell and Osiris

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Therapeutics. If we are able to complete development of CB001 and obtain regulatory approval, we believe CB001 will have commercial advantages over conventional stem cell products.

At this time, we cannot evaluate how our products would compare technologically or commercially to stem cell therapies or other drugs being developed and not yet commercialized because we cannot predict the cost, efficacy and safety of those products nor when any such products would be available for sale.

In addition, many pharmaceutical and biotechnology companies are investigating new drugs and therapeutic approaches for the treatment of the same diseases for which we are targeting our stem cell therapy products. Competition for our stem cell products may be in the form of existing and new drugs, other forms of cell transplantation and gene therapy. We believe that our products, if successfully developed, will compete with these products principally on the basis of efficacy and safety, cost and intellectual property positions.

Assuming successful development and regulatory approval, our products must then compete for market acceptance and market share. Being the first to market the product is critical. This is a function of the relative speed with which we and our competitors can develop products, complete the clinical testing and approval processes and supply commercial quantities of a product to the market. These competitive products may also impact the timing of clinical testing and approval processes by limiting the number of clinical investigators and patients available to test our product candidates.

Our competitors in the cord blood preservation industry include the approximately 20 other national private cord blood banks, such as Cbr Systems, Cryo-Cell International, CorCell and LifeBankUSA. Some of our competitors charge a lower price for their products than we do. Our ability to compete with other family and public cord blood banks will depend on our ability to distinguish ourselves as a leading provider of comprehensive, quality cord blood preservation products with clinical stem cell transplant experience and a research and development organization focused on the development and commercialization of cell therapies derived from cord blood.

Our competitors in oocyte preservation will include IVF centers and individual companies that offer oocyte preservation. IVF centers currently offering this service include Florida Institute of Reproductive Health, Stanford University, The Jones Institute for Reproductive Medicine, and Egg Bank USA (through Advanced Fertility Clinic and Huntington Reproductive Center), among others. Companies offering oocyte preservation include Extend Fertility. Our ability to compete with these entities will depend on our ability to demonstrate the success of our oocyte preservation method with healthy births from previously cryopreserved oocytes, as well as our ability to distinguish ourselves as a leading provider of a high quality oocyte preservation product and our ability to prevent others from using our proprietary method. We anticipate that we will face increased competition in the future from new companies and individual IVF centers that offer oocyte cryopreservation using alternative methods.

Government Regulation

Regulations Relating to ViaCell

Virtually all of the products we develop will require regulatory approval, or licensure, by governmental agencies prior to commercialization, including the FDA. We must obtain similar approvals from comparable agencies in most foreign countries. Regulatory agencies have established mandatory procedures and safety standards that apply to preclinical testing and clinical trials, as well as to the manufacture and marketing of pharmaceutical products. State, local and other authorities may also regulate pharmaceutical manufacturing facilities. This regulatory process can take many years and requires the expenditure of substantial resources.

FDA Regulation of Biologics, Drugs, and Medical Devices

The FDA regulates human therapeutic products in one of three broad categories: biologics, drugs, or medical devices.

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Premarket Approval of Biologics and Drugs. The FDA generally requires the following steps for premarket approval or licensure of a new biological product or new drug product:

preclinical laboratory and animal tests to assess a drug's biological activity and to identify potential safety problems;

submission to the FDA of an investigational new drug or IND application, which must receive FDA clearance before clinical trials may begin;

adequate and well-controlled human clinical trials to establish the safety and efficacy of the product for its intended indication;

compliance with current cGMP regulations and standards;

submission to the FDA of a BLA or new drug application (NDA) for marketing that includes adequate results of preclinical testing and clinical trials; and

FDA review of the marketing application in order to determine, among other things, whether the product is safe, effective and potent for its intended uses.

Typically, clinical testing involves a three-phase process. Phase I clinical trials involve a small number of subjects (10-30) and are designed to provide information about both product safety and the expected dose of the drug. Phase II clinical trials generally provide additional information on dosing and safety in a limited patient population (40-100). Phase III clinical trials are generally large-scale, well-controlled studies of 80-200 or more patients. The goal of phase III clinical trials generally is to provide statistically valid proof of efficacy, as well as safety and potency. During all phases of clinical development, regulatory agencies require extensive monitoring and auditing of all clinical activities, clinical data and clinical trial investigators.

Preparing marketing applications involves considerable data collection, verification, analysis and expense. In responding to the submission of a BLA or NDA, the FDA must first grant filing and review of the BLA or NDA for a specific indication. Following review of the BLA or NDA, the FDA may request additional clinical data or deny approval or licensure of the application if it determines that the application does not satisfy its approval criteria. In addition, the manufacturing facilities must be inspected and found to be in full compliance with cGMP standards before approval for marketing. Further clinical trials may be required to gain approval to promote the use of the product for any additional indications. Such additional indications are obtained through the approval of a supplemental BLA or NDA.

Premarket Clearance or Approval of Medical Devices. Medical devices are also subject to extensive regulation by the FDA, including 510(k) clearance or PMA approval prior to commercial distribution in the United States. Depending on the risk posed by the medical device, there are two pathways for FDA marketing clearance of medical devices. For devices deemed by FDA to pose relatively less risk (Class I or Class II devices), manufacturers must submit a premarket notification requesting permission for commercial distribution; this is known as 510(k) clearance. To obtain 510(k) clearance, the premarket notification must demonstrate that the proposed device is substantially equivalent in intended use and in safety and effectiveness to a previously 510(k) cleared device or a device that was commercially distributed before May 28, 1976 and for which FDA has not yet called for submission of a PMA. Some low risk devices are exempt from 510(k) clearance requirements.

The other pathway, PMA approval, is required for devices deemed to pose the greatest risk (e.g., life-sustaining, life-supporting, or implantable devices) or devices deemed not substantially equivalent to a previously 510(k) cleared device or to a class III device for which PMA applications have not been called. The PMA approval pathway is much more costly, lengthy, and uncertain than the 510(k) clearance pathway. A PMA applicant must provide extensive preclinical and clinical trial data as well as information about the device and its components regarding, among other things, device design, manufacturing, and labeling. As with BLA and NDA submissions, FDA must first grant filing and review of the PMA for a specific indication. FDA review of the PMA typically takes one to three years, but may last longer, especially if the FDA asks for more information or clarification of information already provided. As part of

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the PMA review, the FDA will typically inspect the manufacturer's facilities for compliance with Quality System Regulation, or QSR, requirements, which impose elaborate testing, control, documentation and other quality assurance procedures.

The FDA generally requires manufacturers of medical device kits to obtain 510(k) clearance or PMA approval of the kits before marketing them in interstate commerce. Some kits are exempt from these requirements.

Medical device manufacturers are required to comply with numerous regulatory requirements, including:

QSRs, which require manufacturers to follow elaborate design, testing, control, documentation, and other quality assurance procedures during the manufacturing process;

labeling regulations;

FDA's general prohibition against promoting products for unapproved or off-label uses;

Medical Device Reporting regulation, which requires manufacturers to report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur; and

special controls, such as performance standards, post-market surveillance, patient registries, and FDA guidelines that apply to Class II devices.

Compliance Requirements after BLA Licensure, NDA Approval, 510(k) Clearance, or PMA Approval. Manufacturers of BLA licensed, NDA approved, 510(k) cleared, or PMA approved products must comply with FDA requirements for labeling, advertising, promotion, record keeping, reporting of adverse experiences and other reporting requirements. Violations of FDA or other governmental regulatory requirements during either the pre- or post-marketing stages may result in various adverse consequences, including:

issuance of warning letters;

finances, injunctions, and civil penalties;

recall or seizure of products;

cessation of clinical studies;

operating restrictions, partial suspension or total shutdown of production;

the FDA's delay in granting BLA licensure, NDA approval, 510(k) clearance, or PMA approval or refusal to grant BLA licensure, NDA approval, 510(k) clearance, or PMA approval of new products;

withdrawal of the BLA licensed, NDA approved, 510(k) cleared, or PMA approved product from the market; or

the imposition of civil or criminal penalties against the manufacturer, responsible persons within the company and/or holder of the BLA license, NDA approval, 510(k) clearance, or PMA approval.

Products developed using our Selective Amplification technology will be regulated as biological products. If we receive marketing approval or licensure, we must comply with the above FDA requirements. Discovery of previously unknown problems with a marketed product may result in either FDA compliance action or voluntary withdrawal of the product from the market, which could reduce our revenue sources and hurt our financial results. Additionally, we will most likely have to obtain approval for manufacturing and marketing of each product from regulatory authorities in foreign countries prior to the commencement of marketing of the product in those countries. The approval procedure varies among countries, may involve additional preclinical testing and clinical trials, and the time required may differ from that required for FDA approval or licensure. Although there is now a centralized European Union

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approval mechanism in place, each European country may nonetheless impose its own procedures and requirements, many of which could be time-consuming and expensive. Additionally, European approval standards for cellular therapy are still under development and consequently approval of cell therapy products in Europe may require additional data that we may not be able to satisfy.

Privacy Law. Federal and state laws govern our ability to obtain and, in some cases, to use and disclose data we need to conduct research activities. Through the Health Insurance Portability and Accountability Act of 1996, or HIPAA, Congress required the Department of Health and Human Services to issue a series of regulations establishing standards for the electronic transmission of certain health information. Among these regulations were standards for the privacy of individually identifiable health information. Most health care providers were required to comply with the Privacy Rule as of April 14, 2003.

Because ViaCell does not engage in certain electronic transactions related to reimbursement for health care, ViaCell is not a covered health care provider subject to the Privacy Rule. Many of the health care providers and research institutions with whom we collaborate, however, are subject to the Privacy Rule. These entities may share identifiable patient information with ViaCell for our research purposes only as permitted by the Privacy Rule (for example, with written patient authorizations which comply with certain detailed requirements). Although ViaCell is not directly subject to the Privacy Rule, we could face substantial criminal penalties if we knowingly receive individually identifiable health information from a research collaborator who has not satisfied the Privacy Rule's disclosure requirements.

HIPAA does not preempt, or override, state privacy laws that provide even more protection for individuals' health information. These laws requirements could further complicate our ability to obtain necessary research data from our collaborators. In addition, certain state privacy and genetic testing laws may directly regulate our research activities, affecting the manner in which we use and disclose individuals' health information, potentially increasing our cost of doing business, and exposing us to liability claims. In addition, patients and research collaborators may have contractual rights that further limit our ability to use and disclose individually identifiable health information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Other Regulations. In addition to privacy law requirements and regulations enforced by the FDA, we also are subject to various local, state and federal laws and regulations 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, including chemicals, micro-organisms and various radioactive compounds used in connection with our research and development activities. These laws include the Occupational Safety and Health Act, the Toxic Test Substances Control Act and the Resource Conservation and Recovery Act. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards prescribed by state and federal regulations, we cannot assure you that accidental contamination or injury to employees and third parties from these materials will not occur. We may not have adequate insurance to cover claims arising from our use and disposal of these hazardous substances.

Regulations Relating To Viacord

FDA Regulations. The Viacord cord blood preservation product is subject to FDA regulations requiring infectious disease testing. We have registered Viacord with the FDA as a cord blood preservation service, listed its products with the FDA, and is subject to FDA inspection. In addition, the FDA has proposed good tissue practice (GTP) regulations that would establish a comprehensive regulatory program for human cellular and tissue-based products as well as proposed rules for donor suitability. Furthermore, the FDA may develop standards for these products.

Consistent with industry practice, the Viacord cord blood collection kits have not been cleared as a medical device. The FDA could at any time require us to obtain 510(k) clearance or PMA approval for the collection kits. Securing any necessary medical device clearance or approval for the cord blood

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collection kits may involve the submission of a substantial volume of data and may require a lengthy substantive review. The FDA also could require that we cease distributing the collection kits and require us to obtain 510(k) clearance or PMA approval prior to further distribution of the kits.

Privacy Law. Federal and state privacy laws govern our ability to obtain and, in some instances, to use and disclose identifiable patient information. Because blood and tissue procurement and banking activities are expressly exempted from the scope of the Privacy Rule, we are not a covered health care provider subject to the Privacy Rule. The Privacy Rule indirectly impacts us to the extent that hospitals, obstetricians, and other health care providers who enroll our customers and transfer to us umbilical cord blood (and, in the future, human oocytes) are subject to HIPAA. These providers may share with us identifiable information about individuals only as permitted by the Privacy Rule. Although we are not directly subject to the Privacy Rule, we could still face substantial criminal penalties if we knowingly receive individually identifiable health information from a health care provider who has not satisfied the Privacy Rule's disclosure requirements. In addition, certain state privacy laws may apply directly to us, restricting how we may use and disclose individually identifiable health information.

Moreover, patients and participating health care providers may have contractual rights that further limit our ability to use and disclose individually identifiable health information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Other Regulations. Regulation of cord blood preservation in foreign jurisdictions is still evolving. Of the states in which we provide cord blood preservation services, only New Jersey, New York, and Maryland currently require that cord blood banks be licensed. We are currently licensed to operate in New Jersey and New York and we believe that we will be able to comply with the license requirements in Maryland, which we recently identified. If we identify other states with requirements or if other states adopt requirements for licensing of cord blood services, we would have to obtain licenses to continue providing services in those states.

Regulations Relating To Oocyte Cryopreservation

There are no established precedents related to the US and international regulation of oocyte cryopreservation. In the United States, we anticipate that the cryopreservation of oocytes will be regulated similarly to Viacord's family umbilical cord blood cryopreservation service (Public Health Service Act, Section 361). This means that clinical trials to establish safety and efficacy will not be required to commercialize the service, however, under this regulatory mechanism, we will not be able to make safety and efficacy claims related to the service in advertising and promotional materials.

The FDA also could determine that the cryopreservation of oocytes requires biologic marketing approval (Public Health Service Act, Section 351). This would require an IND application to conduct clinical trials with a requirement for extensive clinical and nonclinical data and a BLA prior to approval to market. A requirement for a BLA would substantially lengthen the planned developmental timeline for commercialization of this service.

Regardless of the degree of regulation of the service (described above), the FDA will likely require some of the components used in the process to be regulated as medical devices and cleared through the agency's 510(k) process. The FDA could at any time determine that some of the components used to cryopreserve the oocytes require PMA approvals, which would increase the planned developmental timeline for commercialization of this service.

We anticipate that we will be required to register any long-term cryopreservation facility with the FDA as a tissue banking service, list our products with the FDA, and will be subject to FDA inspection. Our facility would also be subject to the proposed GTP regulations that intend to establish a comprehensive regulatory program for human cellular and tissue-based products as well as proposed rules for donor suitability. There may also be state specific license requirements that may also be required for

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the operation of a long-term cryopreservation facility. If the FDA were to require us to obtain a BLA to commercialize our service, then we would have to follow cGMP, in addition to the GTP regulations.

Regulations for the cryopreservation of oocytes in foreign jurisdictions have not yet been investigated, however we anticipate that we will encounter similar regulatory mechanisms as those planned by the FDA, and that these mechanisms will vary on a country-by-country basis.

Facilities

We currently lease four facilities in Massachusetts, with development and clinical-trial scale manufacturing operations in Worcester, our cord blood preservation sales, customer support, marketing and administration personnel at two Boston locations, and another research facility in Cambridge Research Center. These four facilities total approximately 30,000 square feet of space. In 2003, we leased approximately 18,000 square feet of office space and approximately 25,000 square feet of laboratory space at a single facility located in Cambridge for a term of ten years. We are building out the administrative office space and expect to occupy it in April 2004. We will build out the laboratory space in mid-2004 and expect to complete our move to this location in late 2004. The majority of the build-out costs will be covered by a tenant improvement allowance from the landlord. We have negotiated early termination of our existing leases coincident with the planned move, without incurring any penalty. The annual rent for this new leased facility is approximately \$1.4 million in the first year, increasing to \$1.7 million by the end of the term, inclusive of maintenance expenses.

We operate our cord blood processing and storage facility in Hebron, Kentucky, with over 12,000 square feet of laboratory and administrative office space, under a lease extending to 2012, with two successive five-year extension options and a right of first offer to re-lease the space from the landlord at the end of the lease term. We also lease approximately 3,800 square feet of laboratory space to house our research operations in Singapore, and, as a result of our acquisition of Kourion Therapeutics, we lease approximately 17,000 square feet of laboratory and administrative space in Langenfeld, Germany; both leases expire in 2007, although we can extend the German lease for up to an additional five years.

In the future, we may require additional facilities to expand our research and development and cord blood processing activities or to assume commercial manufacturing operations.

Employees

As of December 31, 2003, we employed 252 individuals, of which 27 hold an M.D. or Ph.D. degree. 137 of our employees are engaged in cord blood commercial operations, 66 are engaged in research and development activities, and 49 are engaged in senior management and administrative functions. Of our 252 employees, 225 are based in the United States, 22 are in Germany and 5 are in Singapore. None of our employees is represented by a labor union or is covered by collective bargaining agreements. We have not experienced any work stoppages, and believe we maintain satisfactory relations with our employees.

Legal Proceedings

We were sued by PharmaStem Therapeutics, Inc. for infringing two patents relating to our Viacord umbilical cord stem cell cryopreservation business after we rejected PharmaStem's initial requests seeking a license arrangement because we believe that we do not infringe these patents and that they are invalid. PharmaStem filed a complaint on February 22, 2002 and an amended complaint on March 25, 2002, against us and several other defendants in the United States District Court for the District of Delaware, alleging infringement of US Patents No. 5,004,681 and No. 5,192,553, which relate to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood. We counterclaimed that the patents are invalid and for violation of the antitrust laws resulting from patent misuse and sought a declaration of non-infringement. In October 2003, the jury ruled against us and the other defendants, Cbr Systems, CorCell and Cryo-Cell, who represent a majority of the family cord blood preservation industry, and a judgment was entered against us for approximately \$2.9 million, based on 6.125% royalties on our revenue from the processing and storage of umbilical cord blood since

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April 2000. The jury also found that our infringement was willful. We have placed the amount of the award in an escrow account pending final disposition of this case.

We are seeking to have the verdict overturned as contrary to the evidence presented at trial. We have also asked the trial judge to award us certain equitable relief, including the right to continue to conduct our business. PharmaStem is seeking an injunction against us and the other defendants, prejudgment and postjudgment interest, as well as enhanced damages based upon the jury's finding of willful infringement, and attorney's fees. If our challenge to the verdict before the trial judge is unsuccessful, we intend to appeal. If the verdict is upheld by the trial judge and/or on appeal, and we are enjoined from further engaging in our umbilical cord stem cell cryopreservation business, we will not be able to conduct this business unless PharmaStem grants a license to us. If we are not able to obtain a license under the disputed patents or operate under the intervening rights doctrine, we will be required to stop preserving and storing cord blood and to cease using cryopreserved umbilical cord blood as a source for stem cell products. If PharmaStem is successful on its motion for enhanced damages, the jury's award may potentially be increased up to three times the amount of the \$2.9 million award.

From time to time, we may be involved in other litigation relating to claims arising out of our operations. Except as described above, we are not currently involved in any material legal proceedings.

Medical and Scientific Advisory Board

Our medical and scientific board provides specific expertise in areas of research and development relevant to our business and meets with our scientific and management personnel from time to time to discuss our present and long-term research and development activities. Our medical and scientific advisory board members include:

C. Glenn Begley, M.D., Ph.D. Dr. Begley is Vice President, Global Head of Hematology and Oncology Research at Amgen. Previously he was Professor of Medicine at the University of Melbourne in Australia. He has published over 190 papers in scientific and medical journals. His awards include the annual prizes of the Royal Australasian College of Physicians and the Australian Society for Medical Research. He was elected to the Royal College of Pathologists, UK and was the first Foreign Member of the American Society for Clinical Investigation. He trained at the Royal Melbourne Hospital, specializing in hematology and medical oncology and graduated in medicine from the University of Melbourne in 1978, winning the Clinical Prize. He received his Ph.D. in molecular biology at the Walter and Eliza Hall Institute of Medical Research in 1986.

Barbara E. Bierer, M.D. Dr. Bierer is the Senior Vice President for Research at Brigham and Women's Hospital in Boston and Professor of Medicine and Pediatrics at Harvard Medical School. Previously, she was the Chief of the Laboratory of Lymphocyte Biology at the National Heart, Lung and Blood Institute at the National Institutes of Health (NIH) in Bethesda, MD. She also served as the Director of Pediatric Stem Cell Transplantation at the Dana-Farber Cancer Institute and The Children's Hospital in Boston and was Professor of Pediatrics at Harvard Medical School. A graduate of Harvard Medical School, she specializes in immunology and stem cell transplantation.

Hal Broxmeyer, Ph.D. Dr. Broxmeyer is Chairman and the Mary Margaret Walther Professor of Microbiology and Immunology, Professor of Medicine, and Scientific Director of the Walther Oncology Center at the University of Indiana School of Medicine. He is known for his studies on the positive and negative regulation of blood cell production, which since the 1970s have resulted in over 500 publications, and for his extensive research on umbilical cord blood since the 1980s. Dr. Broxmeyer is a founder of the field of cord blood transplantation. His laboratory studies on cord blood stem and progenitor cells and the cryopreservation and storage of cord blood for transplantation helped lead to the first five cord blood transplants. Dr. Broxmeyer has a B.S. from Brooklyn College, City University of New York, a Master's of Science from Long Island University, Brooklyn Campus, a Ph.D. from New York University and completed post doctoral work at Queens University, Kingston, Ontario.

George Daley, M.D., Ph.D. Dr. Daley has been one of our scientific consultants since 1998 and Co-Chairman of our medical and scientific advisory board since 2000. He is currently an Associate Professor in the Department of Biological Chemistry and Molecular Pharmacology, Harvard Medical School and

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Division of Pediatric Hematology/ Oncology, Children's Hospital and Dana Farber Cancer Institute, Boston. Previously, Dr. Daley was a Whitehead Fellow at the Whitehead Institute for Biomedical Research and an Assistant Professor of Medicine and staff member in Hematology/ Oncology at the Massachusetts General Hospital from 1995 to 2003. He is board certified in Internal Medicine and Hematology. Dr. Daley has a Bachelor's degree magna cum laude from Harvard University, a Ph.D. in biology from MIT and an M.D. summa cum laude from Harvard University. Dr. Daley also serves as a member of our board of directors.

Harvey Klein, M.D. Dr. Klein is Chief, Department of Transfusion Medicine at the National Institutes of Health (NIH) in Bethesda, MD. He is also a member of the Board of Directors for the American Red Cross Blood Services, Chesapeake and Potomac Region, the National Blood Authority of the United Kingdom, former Chairman of the American Society of Hematology's Transfusion Subcommittee and a former Council President of the National Marrow Donor Program. He is past President-elect of the American Association of Blood Banks and a member of its board of directors. Dr. Klein's numerous honors include the Latham Award of the European Society of Hemapheresis, the Cohn-de Laval Award of the World Apheresis Association, the Emily Cooley Award of the American Association of Blood Banks and the John B. Alsever Award for contributions to the blood banking sciences. The Public Health Service has awarded Dr. Klein the Commendation Medal, Unit Commendation, the Meritorious Service Medal, NIH Clinical Center Director's Award, and the Secretary's Distinguished Service Award, the highest civilian award of Health and Human Services. Dr. Klein graduated from Harvard College and earned his medical degree from The Johns Hopkins School of Medicine. He did his internship and residency at Johns Hopkins Hospital, where he was also a Fellow in Hematology.

Peter Wernet, Ph.D. Dr. Wernet has been the co-chairman of our medical and scientific advisory board since September 2003. He is the director and professor at the Institute of Transplantation Immunology and Cell Therapeutics of the Heinrich-Heine-University, Düsseldorf, Germany. In 1992 he established the José Carreras Cord Blood Bank Düsseldorf. He has served as President of the International NETCORD Foundation since 1998, which initiated a world accreditation program jointly with the Federation for Accreditation of Cell Therapy (FACT) in the United States. In 1999, he founded Kourion Therapeutics of Germany, which we acquired in September 2003. He studied Medicine in Cologne, Geneva and London and received his doctorate from the Institute of Physiology at the University of Göttingen. He was postdoctoral fellow from 1971 to 1973 and assistant professor for Immunology from 1973-1976 at Rockefeller University in New York City. He obtained board certification in Transfusion Medicine at the University of Tübingen, Germany.

Leonard I. Zon, M.D. Dr. Zon is an attending physician in hematology at Children's Hospital Boston and in Oncology at Dana-Farber Cancer Institute. He is an Associate in Medicine-Hematology/ Oncology, at Children's Hospital and Professor of Pediatric Medicine at Harvard Medical School. He is also an Investigator for Howard Hughes Medical Institute. Dr. Zon is board certified in Medical Oncology and Hematology. He received a B.S. degree in chemistry and natural sciences from Muhlenberg College and an M.D. degree from Jefferson Medical College. He subsequently did an internal medicine residency at New England Deaconess Hospital and a fellowship in medical oncology at Dana-Farber Cancer Institute. His postdoctoral research was in the laboratory of Stuart Orkin.

Executive Medical Director

Robert Dracker, M.D., M.H.A. Dr. Dracker serves as our Executive Medical Director for Viacord and is responsible for all strategic medical clinical issues and policies related to the operation of the Viacord cord blood bank. Dr. Dracker is a pediatric hematologist with expertise in blood banking and transfusion medicine. Dr. Dracker founded Infusacare, Inc. of Syracuse, New York, where he practices. Dr. Dracker is board certified by the American Association of Pediatrics and by the American Board of Pathology in Blood Banking/ Transfusion Medicine. Dr. Dracker is the Chair of the Hematopoietic Cellular Therapy Advisory Board for the New York State Department of Health and a member of the New York Governor's Council on Blood and Blood Transfusion. Dr. Dracker was instrumental in drafting the New York State regulations for cord blood banking.

Table of Contents**MANAGEMENT****Executive Officers, Key Employees and Directors**

Set forth below is information regarding our executive officers, key employees and directors, as of March 15, 2004.

| Name | Age | Positions |
|------------------------------|-----|---|
| Executive Officers: | | |
| Marc D. Beer | 39 | President, Chief Executive Officer and Director |
| Stephen G. Dance | 53 | Senior Vice President, Finance and Chief Financial Officer |
| Christoph M. Adams, Ph.D. | 47 | Senior Vice President, Business Development |
| Kurt C. Gunter, M.D. | 49 | Senior Vice President, Clinical and Regulatory Affairs and Government Relations |
| Key Employees: | | |
| Seth P. Finklestein, M.D. | 55 | Vice President and Head of Neuroscience |
| Henry Hoppe, IV, Ph.D. | 52 | Vice President, Therapeutic Development |
| Morey Kraus | 46 | Vice President and Chief Technical Officer |
| Mary Larson-Marlowe | 38 | Vice President, Therapeutic Development Operations |
| Mary T. Thistle | 44 | Vice President, Viacord Operations |
| Jan Visser, Ph.D. | 55 | Senior Vice President, Scientific Research |
| Stephen Wnendt, Ph.D. | 41 | Senior Vice President, European Operations |
| Directors: | | |
| Vaughn M. Kailian | 59 | Chairman of the Board |
| George Daley, M.D., Ph.D. | 43 | Director |
| Ansbert Gadicke, M.D. | 46 | Director |
| Paul Hastings | 44 | Director |
| Denise Pollard-Knight, Ph.D. | 44 | Director |
| James L.L. Tullis | 56 | Director |
| Jan van Heek | 54 | Director |

Executive Officers

Marc D. Beer. Mr. Beer joined us as our President and Chief Executive Officer and a member of the board in April 2000. Until January 2004, he also served as our Chairman of the Board. Prior to this, from 1996 until April 2000, he was a senior manager at Genzyme Corporation most recently serving in the role of Vice President, Global Marketing for Genzyme Therapeutics WorldWide, a division of Genzyme Corporation. Mr. Beer has more than 15 years' experience in profit and loss management, sales and marketing management, and research and development program management in therapeutic, surgical, and in vitro diagnostic systems businesses. Mr. Beer has served as a member of the board of directors of Nephros Therapeutics, a private company, since 2001. Mr. Beer has a B.S. from Miami University (Ohio).

Stephen G. Dance. Mr. Dance joined us as Senior Vice President, Finance and Chief Financial Officer in January 2004. Prior to this, he was Senior Vice President, Finance at SangStat Medical Corporation, a biotechnology company, from April 1999 until December 2003, adding the additional title of Chief Financial Officer in December 2002. Previously, Mr. Dance spent one year with Plantronics, Inc., a telecommunications company, where he was responsible for worldwide financial accounting, reporting and planning activities. Prior to that, he spent 15 years with Syntex Corporation, a pharmaceuticals company (later part of the Roche group), in a variety of increasingly responsible finance positions including controller of US sales, marketing and manufacturing operations. Mr. Dance holds a CPA (California) and FCA (United Kingdom) qualification in accounting and spent seven years with Deloitte & Touche in both

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the United Kingdom and the United States. He received his B.A. degree in French at the University of Leeds in England.

Christoph M. Adams, Ph.D. Dr. Adams has served as our Senior Vice President, Business Development since joining our company in July 2001. Prior to joining us, from March 1994 until February 2001, Dr. Adams was Vice President, Business Development for Transkaryotic Therapies Inc., a publicly traded biotechnology company, where he was responsible for strategic planning, commercial product development and corporate partnerships. Prior to that, Dr. Adams was Director of Business Development for the Pharmaceutical Division of Ciba-Geigy Limited, Basel, Switzerland, a publicly traded biotechnology company. He has a diploma in organic chemistry and biochemistry and a Ph.D. in organic chemistry from the University of Zurich. Dr. Adams also holds an M.B.A. from INSEAD of Fontainebleau, France.

Kurt C. Gunter, M.D. Dr. Gunter has served as our Senior Vice President, Clinical and Regulatory Affairs and Government Relations and our Medical Director since joining our company in July 2001. From 1996 until 2001, Dr. Gunter was Vice President, Clinical and Regulatory Affairs at Transkaryotic Therapies Inc., where he was responsible for clinical development activities and all regulatory affairs. Prior to that, from 1995 until 1996, Dr. Gunter was the Director of Stem Cell Processing, Hematology and the Blood Donor Center in the Department of Laboratory Medicine at Children's National Medical Center in Washington, D.C. Dr. Gunter has also held positions at the FDA's Center for Biologics Evaluation and Research, including Acting Deputy Director for the Division of Cellular and Gene Therapies and Chief of the Cytokine and Cell Biology Branch. Dr. Gunter is board-certified in Clinical and Anatomical Pathology and Transfusion Medicine. Dr. Gunter has a B.S. from Stanford University and an M.D. from the University of Kansas School of Medicine.

Key Employees

Seth P. Finklestein, M.D. Dr. Finklestein has served as our Vice President and Head of the Neuroscience Division since joining our company in September 2001. Prior to joining us, from July 1990 until September 2001, Dr. Finklestein was an Associate Professor of Neurology at Harvard Medical School and, from 1978 to 2001, he was an Associate Neurologist at Massachusetts General Hospital. Dr. Finklestein also served as Director of the CNS Growth Factor Research Laboratory at Massachusetts General Hospital, where his work focused on the development of unique molecular and cellular products for acute stroke and stroke recovery. From 1999 to 2001, Dr. Finklestein was also Chief Scientific Officer at Cerebrotec. Dr. Finklestein has a B.A. from Haverford College and an M.D. from Harvard Medical School.

Henry Hoppe, Ph.D. Dr. Hoppe has served as our Vice President of Therapeutics Development since October 2001. From October 1984 until July 2001, Dr. Hoppe was employed at Genzyme Corporation, where he held the positions of Director of Special Projects, Director of Applied Expression and Senior Scientist of Bioengineering. Before joining Genzyme, he was Research Scientist for the University Hospital and Harvard Medical School. Dr. Hoppe received his B.S. in Life Sciences and his Ph.D. in Genetic Toxicology from Massachusetts Institute of Technology.

Morey Kraus. Mr. Kraus is the co-founder of ViaCell, has served as our Vice President and Chief Technology Officer since April 2000, and also serves on our medical and scientific advisory board. Mr. Kraus served as our Chairman and Chief Executive Officer from our inception in September 1994 until March 2000. Prior to founding ViaCell, Mr. Kraus was a Ph.D. candidate at Worcester Polytechnic Institute in an interdisciplinary Bioprocess Engineering Program combining chemical engineering and biology. Mr. Kraus has a B.A. in religion from American University.

Mary Larson-Marlowe. Ms. Larson-Marlowe has been Vice President of Therapeutic Development Operations since December 2002. Prior to this role, she served as Director of Program Management since joining the company in August 2000. Her previous experience includes nine years at Genzyme Corporation, serving in Marketing and Program Management roles in the Therapeutic and Diagnostic business areas, during which time she led several protein development projects from research through

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clinical trials to FDA licensing. Ms. Larson-Marlowe has a B.S. in Molecular Biology and Psychology from the University of Wisconsin and an M.B.A. from Boston University.

Mary T. Thistle. Ms. Thistle has served as our Vice President, Viacord Operations since 2002. Prior to this role, she served as our Vice President of Financial and Corporate Planning and Treasurer since joining our company in October 2000. Prior to joining us, Ms. Thistle provided audit, tax and management consulting services to various companies, including serving as consultant to Viacord while at the accounting firm of Yoshita, Croyle & Sokorski from January 1996 to October 2000. From October 1998 to October 1999, she was responsible for all financial aspects, risk management, information technology and human resources of S.R.T, a subsidiary of Thermo Electron, a publicly traded materials analysis solutions company. Prior to that, she served various financial management positions at Nashua Corporation, a publicly traded manufacturing company and Deloitte & Touche, a global professional services organization delivering assurance, tax and consulting services. Ms. Thistle has a B.S. in accounting from the University of Massachusetts.

Jan Visser, Ph.D. Dr. Visser has served as our Senior Vice President, Scientific Research, since 2003. Beginning in December 2001, he was ViaCell's Vice President, Stem Cell Research. From February 1994 to September 2001, Dr. Visser formerly served as Head of the Laboratory of Stem Cell Biology at the New York Blood Center and as a member of the Lindsley F. Kimball Research Institute, both in New York, NY. Prior to this, Dr. Visser was Head of the Department of Cell Biology at the Institute of Applied Radiobiology and Immunology in Rijswijk, The Netherlands. Immediately before, Dr. Visser held numerous research positions at the Radiobiological Institute of Rijswijk and at the State University of Leiden, The Netherlands. Dr. Visser earned his M.S. in Experimental Physics, his B.S. in Physics and Mathematics, and his Ph.D. in Biophysics from the State University of Leiden, The Netherlands.

Stephan Wnendt, Ph.D. Dr. Wnendt has served as Senior Vice President, European Operations since September 2003. He joined our company following our acquisition of Kourion Therapeutics, where he was Executive Officer and Chairman of the Management Board since March 2003. Prior to his time at Kourion Therapeutics, from November 2000 to February 2003, Dr. Wnendt was Vice President of Biopharmaceutical Development and General Manager of JOMED GmbH, now Abbott Vascular Instruments GmbH, managing a research and manufacturing facility producing catheters and stents. Previously, Dr. Wnendt worked for nine years in various positions in research management with Grunenthal, an international pharmaceutical company, finally as Head of Preclinical Development. Dr. Wnendt is Assistant Professor at the University of Technology Aachen, Germany, received a Diploma in Biochemistry from the Free University of Berlin and a Ph.D. from the University of Technology, Berlin.

Board of Directors

Vaughn M. Kailian. Mr. Kailian has served as a director and chairman of our board since January 2004. Mr. Kailian serves on the board of the Biotechnology Industry Organization (BIO), the California Healthcare Institute, the Pharmaceutical Foundation Advisory Council at the University of Texas at Austin and he is a director of NicOx, S.A. and Millenium Pharmaceuticals, Inc. Mr. Kailian serves as vice chairperson of the Board of Directors of Millennium Pharmaceuticals as well as head of the Millennium commercial organization. From 1990 to 2002, Mr. Kailian was CEO, President, and director of COR Therapeutics, Inc. Mr. Kailian has a B.A. degree from Tufts University.

George Daley, M.D., Ph.D. Dr. Daley has served as a director since April 2000. He is currently an Associate Professor in the Department of Biological Chemistry and Molecular Pharmacology, Harvard Medical School and Division of Pediatric Hematology/ Oncology, Children's Hospital and Dana-Farber Cancer Institute, Boston. Previously, Dr. Daley was a Whitehead Fellow at the Whitehead Institute for Biomedical Research and an Assistant Professor of Medicine and staff member in Hematology/ Oncology at the Massachusetts General Hospital from 1995 to 2003. He is board certified in Internal Medicine and Hematology. Dr. Daley is a venture partner at MPM Asset Management LLC. He has also been one of our scientific consultants since 1998 and is Co-Chairman of our medical and scientific advisory board.

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Dr. Daley has a Bachelor's degree magna cum laude from Harvard University, a Ph.D. in biology from MIT and an M.D. summa cum laude from Harvard University.

Ansbert Gadicke, M.D. Dr. Gadicke has served as a director since January 1998. Dr. Gadicke is President, Chairman and Founding General Partner of MPM Asset Management LLC and a manager of MPM BioVentures I LLC and MPM Asset Management II LLC. Dr. Gadicke founded MPM in 1992. MPM and the MPM BioVentures funds invest private equity in early stage startups, as well as large capitalization companies. Prior to MPM, Dr. Gadicke was employed by The Boston Consulting Group, a consulting firm. He has held research positions at the Whitehead Institute at MIT, Harvard University and the German Cancer Research Center. Dr. Gadicke currently serves as a director on management boards of several private companies. Dr. Gadicke has an M.D. from J.W. Goethe University in Frankfurt.

Paul Hastings. Mr. Hastings has served as a director since November 2000. Mr. Hastings is President and Chief Executive Officer of QLT, Inc., a biotechnology company. From 2001 until 2002, he served as President and Chief Executive Officer of Axys Pharmaceuticals Inc. prior to Axys' merger with Celera Genomics, an Applera company. From 1999 until 2001, he was President of Chiron Corporation's BioPharmaceuticals Division. Prior to that, he was President and Chief Executive Officer of LXR Biotechnology and President of Genzyme Therapeutics Worldwide. Mr. Hastings has a B.S. degree in pharmacy from the University of Rhode Island.

Denise Pollard-Knight, Ph.D. Dr. Pollard-Knight has served as a director since October 2003. Since January 1999, Dr. Pollard-Knight has served as head of Healthcare Private Equity at Nomura International plc, a leading Japanese financial institution. Prior to joining Nomura, Dr. Pollard-Knight was a member of Rothschild Asset Management Ltd., an investment management firm, from January 1997 to January 1999. Dr. Pollard-Knight held several research and development management positions at Amersham-Pharmacia and Fisons plc. Dr. Pollard-Knight holds a Ph.D. and B.Sc. (Hons) from the University of Birmingham in England. Dr. Pollard-Knight completed postdoctoral work as a Fulbright Scholar at the University of California, Berkeley.

James L.L. Tullis. Mr. Tullis has served as a director since September 2002. Mr. Tullis is the Founder and Chief Executive Officer of Tullis-Dickerson & Co., Inc., a health care-focused private equity firm. From 1983 to 1986, Mr. Tullis was Senior Vice President and led healthcare investment banking efforts at E.F. Hutton. Prior to that, Mr. Tullis was a Principal at Morgan Stanley and led that firm's investment research in health care from 1974 through 1983. Mr. Tullis was a research analyst at Putnam Funds from 1972 to 1974. Mr. Tullis is a graduate of Stanford University and earned an MBA from Harvard Business School. Mr. Tullis also serves on the board of directors of Crane Co.

Jan van Heek. Jan van Heek has served as director since September 2002. He has served at various positions at Genzyme since 1991. Through the end of March 2004, Mr. van Heek was responsible for Genzyme's Biosurgery, Genetics and Pharmaceuticals business unit and global manufacturing of therapeutic and biosurgery products, and he currently serves in a part-time capacity as an advisor to Genzyme's Chief Executive Officer. Mr. van Heek established Genzyme's European offices and has played a key role in developing the company's strategic vision. Prior to joining Genzyme, Mr. van Heek held various senior management positions at Baxter Healthcare Corporation, including vice president and general manager of its Fenwal Division. Mr. van Heek received his MBA from St. Gallen University in Switzerland and holds an executive degree in business from Stanford University.

Board Composition

Our board currently has eight members, who we expect to remain the members of our board immediately following this offering. Following this offering, our charter and bylaws will divide our board into three classes of directors serving staggered three-year overlapping terms, with one class of directors elected at each annual meeting of stockholders. Each director will serve until his or her successor is elected or until his or her earlier death, resignation or removal as provided by our bylaws.

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Our directors will be divided among the three classes as follows:

the Class I directors will be Dr. Gadicke, Dr. Pollard-Knight and Mr. Tullis, and their terms will expire at the annual meeting of stockholders to be held in 2005;

the Class II directors will be Messrs. Daley, Hastings and van Heek, and their terms will expire at the annual meeting of stockholders to be held in 2006; and

the Class III directors will be Messrs. Beer and Kailian, and their terms will expire at the annual meeting of stockholders to be held in 2007.

Following this offering, our charter and bylaws will provide that the authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

Committees of the Board of Directors

Upon the close of this offering, our Board of Directors will have the following standing committees:

Audit Committee

The members of our Board's audit committee are _____, _____ and _____; _____ is the chairman of the committee. The audit committee assists our Board of Directors with its oversight responsibilities regarding the integrity of our financial statements; our compliance with legal and regulatory requirements; the independent auditors' qualifications and independence; and the performance of our internal audit function, if any, and independent auditors. We believe that the composition of our audit committee meets the requirements for independence under the current requirements of the Sarbanes-Oxley Act of 2002, the Nasdaq National Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Compensation Committee

The members of our Board's compensation committee are _____, _____ and _____; _____ is the chairman of the committee. The compensation committee provides assistance to the Board of Directors by designing and recommending to the Board of Directors for approval and evaluating the compensation plans, policies and programs of ViaCell, especially those regarding executive compensation; reviewing and approving the compensation of our Chief Executive Officer and other officers and directors; and will assist the Board of Directors in producing an annual report on executive compensation for inclusion in our proxy materials in accordance with applicable rules and regulations. We believe that the composition of our compensation committee meets the requirements for independence under, and the functioning of our compensation committee complies with, any applicable requirements of the Sarbanes-Oxley Act of 2002, the Nasdaq National Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Nominating Committee

Upon the closing of our initial public offering, our Board of Directors will have established a nominating committee. The members of the committee will be _____, _____ and _____; _____ will be the chairman of the committee. The nominating committee will assist the Board of Directors with its responsibilities regarding the identification of individuals qualified to become Board members; the selection of the director nominees for the next annual meeting of stockholders; and the selection of director candidates to fill any vacancies on the Board of Directors. We intend for the composition of our nominating committee to meet the requirements for independence under, and the committee's functions will comply with, any applicable requirements of the Sarbanes-Oxley Act of 2002, the Nasdaq National Market and SEC rules and regulations.

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Director Compensation

Each director who is neither an employee nor an affiliate of one of our stockholders is eligible to receive compensation from us for his or her services as a member of our board or any of its standing committees. The board member is entitled either to \$3,500 or to options to purchase 437.5 shares of common stock for each meeting attended, and \$1,000 for each committee meeting attended (\$2,000, if chairperson of the committee). A non-employee, non-stockholder affiliated board member who serves as chairperson of our board, receives an annual retainer of between \$62,000 and \$112,000 in cash, and options to purchase 160,000 shares of common stock, vesting quarterly at 6.25% over four years. As chairman of the board, the chairman also receives \$2,000 for each board meeting attended. We reimburse all of our board members for expenses incurred in attending board and committee meetings.

Currently, Messrs. Hastings and van Heek and our chairman of the board, Mr. Kailian, are the only directors entitled to receive compensation for their services as board members. Mr. Hastings was paid a total of \$21,500 in cash and was issued options to purchase a total of 20,000 shares of common stock at \$0.95 per share and 5,000 shares of common stock at \$2.00 per share for his board service in 2002. Mr. van Heek was paid a total of \$6,000 in cash and is due 3,063 shares of common stock and also received options to purchase a total of 5,000 shares of our common stock at \$5.00 per share for his service in 2003. Mr. Kailian began his service on our board in January 2004. For his service as chairman of the board, we have agreed to pay him \$100,000 per year, plus \$2,000 for each meeting attended and granted him in January 2004 a stock option to purchase 160,000 shares of common stock at \$5.00 per share vesting quarterly in 16 equal installments.

In addition, in connection with his work as a member of our medical and scientific advisory board, in August 2003, we continued Dr. Daley's consulting arrangement with us. Under this arrangement, we have agreed to pay him a \$20,000 per year annual retainer, plus \$5,000 for every full advisory board meeting attended (\$500 if attended by telephone). He also receives options to purchase 30,000 shares of our common stock at an exercise price per share of \$5.00, 9,000 of which are vested fully on the date of grant, with the remaining 21,000 to vest on August 2004. In 2003, Dr. Daley was paid \$10,500.

Compensation Committee Interlocks and Insider Participation

During 2003, our compensation committee consisted of Mr. Hastings, Dr. Gadicke and Mr. Tullis. None of these individuals has been an officer or employee of ours at any time. Also, none of our executive officers serves, nor served in 2003, on the board of directors or compensation committee of a company with an executive officer serving on our board of directors or compensation committee. Please also refer to the section entitled Certain Relationships and Related Party Transactions.

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The table below summarizes the compensation paid to or earned by our chief executive officer and our four other most highly compensated executive officers during 2003. We refer to these five people as the named executive officers.

Summary Compensation Table

| Name And Principal Position | 2003 Annual Compensation(1) | | | Long-term Compensation | All Other Compensation |
|---|-----------------------------|----------|------------------------------|-------------------------------|------------------------|
| | Salary | Bonus(2) | Other Annual Compensation(3) | Securities Underlying Options | |
| Marc D. Beer <i>President and Chief Executive Officer</i> | \$325,000 | | | | |
| Christoph M. Adams, Ph.D. <i>Senior Vice President, Business Development</i> | 209,535 | | | | |
| Grant Bogle(4) <i>President, ViaCell Commercial Operations</i> | 249,953 | | | | |
| Kurt Gunter, M.D. <i>Senior Vice President, Clinical and Regulatory Affairs and Government Relations</i> | 218,599 | | | | |
| Jeffrey A. Sacher(5) <i>Chief Financial Officer</i> | 204,346 | | | 200,000 | 115,179 |

On January 1, 2004, Stephen G. Dance, our current Senior Vice President, Finance and Chief Financial Officer, joined us; his base salary for 2004 is \$235,000.

- (1) Includes amounts earned but deferred at the election of the executive, such as salary deferrals under our 401(k) Plan.
- (2) As of the date of this prospectus, bonus compensation for 2003 had not been determined or awarded.
- (3) The value of perquisites and benefits for each named officer does not exceed the lesser of \$50,000 and 10% of his total annual salary and bonus.
- (4) Mr. Bogle's employment with us terminated on March 31, 2004.
- (5) Mr. Sacher's employment with us terminated on February 2, 2004. All other compensation reflects payments made to Mr. Sacher to reimburse his relocation expenses.

Table of Contents**Stock Options**

The table below provides information regarding stock option grants by us to Mr. Sacher, who was the only named executive officer in 2003 to receive such grants. All options were granted under our equity incentive plan. These options were granted at exercise prices at least equal to the fair market value of our common stock as determined by the compensation committee or by our board of directors on the dates of grant. The percentage of options granted is based on options to purchase an aggregate of 713,436 shares of our common stock granted by us in 2003 to our employees, including the named executive officers.

Option Grants in Fiscal Year 2003

| Name | Individual Grants | | | | Potential Realizable Value Assumed Annual Rates of Stock Price Appreciation for Option Terms(1) | |
|----------------------|---|---|--------------------------|-----------------|---|-----|
| | Number of Securities Underlying Options Granted | Percent of Total Options Granted to Employees in 2003 | Exercise Price Per Share | Expiration Date | 5% | 10% |
| | | | | | | |
| Jeffrey A. Sacher(2) | 200,000 | 28.0% | \$5.00 | January 1, 2013 | \$ | \$ |

(1) The dollar amounts under these columns are the result of calculations at the 5% and 10% rates set by the SEC and, therefore, are not intended to forecast possible future appreciation, if any, in the price of the underlying common stock. No gain to the optionees is possible without an increase in price of the common stock, which will benefit all stockholders proportionately. The potential realizable values are calculated using a base value equal to the initial public offering price (assumed to be \$ per share) and assuming that the market price appreciates from this price at the indicated rate for the entire term of each option and that each option is exercised and sold on the last day of its term at the appreciated price.

(2) In January 2003, we granted Mr. Sacher options to purchase 125,000 shares of our common stock at an exercise price of \$5.00 per share. These options vest quarterly over a period of four years. In January 2003, we also granted Mr. Sacher options to purchase 75,000 shares of our common stock at \$5.00 per share, vesting on the grant date's fourth, fifth, sixth and seventh anniversaries, subject to accelerated vesting of up to 55,000 of such shares upon the achievement of certain share prices following the completion of this offering. Under the terms of a mutual release and early separation agreement, Mr. Sacher's options will continue to vest until February 2, 2005, on which date all of Mr. Sacher's unexercised options (whether vested or unvested) will terminate.

The table below provides information regarding unexercised stock options held on December 31, 2003 by each of the named executive officers. No stock options were exercised by named executive officers during our last fiscal year. As our common stock is not publicly traded, a readily ascertainable market value for these options is not available.

Option Exercises And Year-End Option Values

| Name | Number of Securities Underlying Unexercised Options at December 31, 2003 | | Value of Unexercised In-the-Money Options at December 31, 2003(1) | |
|--------------------|--|---------------|---|---------------|
| | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Marc D. Beer | 537,500 | 962,500 | \$ | \$ |
| Christoph M. Adams | 56,250 | 73,750 | | |
| Grant Bogle | 62,500 | 237,500 | | |
| Kurt Gunter | 70,625 | 89,375 | | |
| Jeffrey A. Sacher | | 200,000 | | |

- (1) Based on the difference between the option exercise price and an assumed initial public offering price of \$ per share of common stock.

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Employment and Severance Arrangements

All of our current employees have entered into agreements with us which contain restrictions and covenants. These provisions include covenants relating to the protection of our confidential information, the assignment of inventions and restrictions on soliciting our clients, employees or independent contractors. None of our employees are employed for a specified term, and each employee's employment with us is subject to termination at any time by either party for any reason, with or without cause. We have entered into employment agreements with Mr. Beer and letter agreements with our other named executive officers.

Under Mr. Beer's employment agreement, dated May 2, 2000, he serves as our Chief Executive Officer for automatically renewed one-year terms each June 1st, until terminated by either party upon three months' notice. His agreement provides for a base salary of \$250,000 per year, subject to yearly adjustment, and performance-based bonuses granted at amounts determined by the board of directors in its discretion. Under the agreement, we granted Mr. Beer at commencement of his employment an option to purchase 900,000 shares of our common stock at \$0.30 per share, two-thirds of which began vesting in 48 equal, monthly installments on the grant date, with the remaining one-third to vest in equal annual installments on each of the eighth, ninth and tenth anniversary dates of the grant date. If we terminate Mr. Beer without cause or if he terminates his employment for good reason, he is entitled to his base salary plus benefits for twelve months following the date of termination.

Under Dr. Adams' letter agreement, dated June 7, 2001, he serves as our Senior Vice President, Business Development with a base salary of \$200,000 per year, subject to yearly adjustment, and performance-based bonuses granted at amounts determined by the board of directors in its discretion. Under the agreement, we granted Dr. Adams an option to purchase 100,000 shares of our common stock at \$0.95 per share, vesting quarterly over four years. If we terminate Dr. Adams without cause or if he terminates his employment for good reason, he is entitled to his base salary for six months following the date of the termination.

Mr. Bogle's letter agreement, dated July 1, 2002, provided for his employment as our President, ViaCell Commercial Operations with a base salary of \$225,000 per year, subject to yearly adjustment, and performance-based bonuses granted at amounts determined by the board of directors in its discretion. Under the agreement, we granted Mr. Bogle an option to purchase 250,000 shares of our common stock at \$5.00 per share, vesting quarterly over four years, and an option to purchase 50,000 shares of our common stock at \$5.00 per share, vesting upon the achievement of certain milestones. Mr. Bogle's employment with us terminated on March 31, 2004, and under the terms of a mutual release and early separation agreement entered into on February 18, 2004, we will make severance payments to Mr. Bogle for a six month period, during which he will also be able to exercise stock options granted to him. Such severance payments may be extended for an additional three months to the extent that Mr. Bogle is unable to secure substitute full-time employment during the initial six month severance period.

Under Dr. Gunter's letter agreement, dated May 14, 2001, he serves as our Senior Vice President, Clinical and Regulatory Affairs/ Government Relations, with a base salary of \$210,000 per year, subject to yearly adjustment, and performance-based bonuses granted at amounts determined by the board of directors in its discretion. Under the agreement, we granted Dr. Gunter an option to purchase 120,000 shares of our common stock at \$0.95 per share, vesting quarterly over four years, and an option to purchase up to an additional 40,000 shares of our common stock at \$0.95 per share, vesting upon the achievement of certain milestones. If we terminate Dr. Gunter without cause or if he terminates his employment for good reason, he is entitled to his base salary for six months following the date of the termination.

Mr. Sacher's employment agreement, dated October 26, 2002, provided for his employment as our Chief Financial Officer with a base salary of \$210,000 per year, subject to yearly adjustment, and performance-based bonuses to be granted in amounts in our board of directors' discretion. Under the agreement, we granted Mr. Sacher options to purchase 125,000 shares of our common stock at \$5.00 per share vesting quarterly over four years. We also granted Mr. Sacher options to purchase 75,000 shares of our common stock at \$5.00 per share, vesting on the grant date's fourth, fifth, sixth and seventh

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anniversaries, subject to accelerated vesting of up to 55,000 of such shares upon achievement of certain milestones. Mr. Sacher's employment with us terminated on February 2, 2004, and under the terms of a mutual release and early separation agreement dated January 2, 2004, we will make severance payments to Mr. Sacher for a 12-month period, during which time his options will continue to vest as if he were employed with us. All of Mr. Sacher's unexercised options (whether vested or unvested) will terminate at the end of such 12-month period.

Employee Benefits Plans

Amended and Restated 1998 Equity Incentive Plan

Our board of directors initially adopted our current equity incentive plan in 1998. It has been subsequently amended and restated several times, with the most recent amendment and restatement to the plan having been adopted by the Board on _____, 2004 and approved by the stockholders on _____, 2004, to become effective upon the effectiveness of the registration statement of which this prospectus forms a part. Our equity incentive plan provides for the grant of incentive stock options, as defined under section 422 of the US Internal Revenue Code, nonstatutory stock options, restricted and unrestricted stock awards, stock appreciation rights, and stock units. Under the plan, incentive stock options may be granted to employees, including officers. All other awards may be granted to employees, including officers, non-employee directors and consultants.

We have reserved 7,200,000 shares of common stock for issuance under the plan. Of that number, as of March 15, 2004, a total of 5,308,093 shares have been issued as past awards or are reserved for issuance under outstanding awards, leaving 1,510,584 shares available for issuance for future grants. No awards can be granted under the plan after 2008 or such earlier date designated by our board of directors.

Our board of directors administers our equity incentive plan, although it may delegate any of its functions as plan administrator to the board's compensation committee. The plan administrator determines recipients, grant dates, the numbers and types of equity awards to be granted and the terms and conditions of the equity awards, including the period of their exercisability and vesting. The plan administrator also determines the exercise price of options granted, the purchase price for rights to purchase restricted stock and the strike price for stock appreciation rights. The plan administrator may also amend the terms of any outstanding equity awards, subject to the award holder's consent unless the plan administrator determines the holder would not be materially and adversely affected. Our board may amend, suspend or terminate the plan at any time.

In the event of a change in control of our company, or a sale of substantially all of our assets, the compensation committee or the board may, in its discretion, and either at the time of grant, or afterwards, provide for the manner in which an award may be affected by such transaction, including assumption of the award by the acquiring party in the change in control or asset sale, acceleration of any vesting or release of restrictions, termination of the award or otherwise.

2004 Employee Stock Purchase Plan

Our board of directors adopted on _____, 2004, and our stockholders approved on _____, 2004, our employee stock purchase plan, to become effective upon the effectiveness of the registration statement of which this prospectus forms a part. The purchase plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the US Internal Revenue Code. Under the purchase plan, employees may purchase shares of common stock at a discount from fair market value.

We have reserved 750,000 shares of common stock for issuance under the purchase plan. We have not, and will not prior to the initial public offering of our common stock, issue any shares of common stock under the purchase plan. Once the first offering period begins under the purchase plan, we can continue to grant purchase rights under the plan through the end of 2014, unless the purchase plan is earlier terminated by our board.

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We expect that our compensation committee will grant rights under the purchase plan, although our board may also exercise that function. Also, the compensation committee, or a duly appointed administrator, will determine the frequency and duration of individual offerings under the plan and the dates when employees may purchase stock. Eligible employees participate voluntarily and may withdraw from any offering at any time before they purchase stock. Participation terminates automatically upon termination of employment. The purchase price per share of common stock in an offering will not be less than 85% of the lesser of its fair market value at the beginning of the offering period or on the applicable exercise date and employees may pay through payroll deductions, periodic lump sum payments or a combination of both. The compensation committee may amend, modify or terminate the purchase plan at any time

401(k) Plan

We have a 401(k) defined contribution retirement plan covering substantially all full-time employees. Our 401(k) plan is intended to qualify under Section 401 of the Internal Revenue Code so that contributions by employees and by us to our 401(k) plan and income earned on plan contributions are not taxable to employees until withdrawn or distributed from the plan, and so that contributions, including employee salary deferral contributions, will be deductible by us when made.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Sales of Securities

Since January 1, 2001, several of our executive officers, directors and 5% stockholders purchased our securities as described below.

Dr. Gadicke, a member of our board of directors, is a manager of MPM BioVentures I LLC and MPM Asset Management II LLC. In September 2003, we issued to five funds affiliated with these entities an aggregate total of 235,274 shares of our Series I preferred stock when we purchased from those funds and other sellers all of the outstanding capital shares of Kourion Therapeutics. We have an obligation to issue those funds an additional 289,256 shares of our Series I preferred stock (contingent shares) if, prior to September 2006, we either experience a change in control or complete an underwritten public offering for a price per share of at least \$9.70 resulting in net proceeds of \$50 million or more. If the contingent shares issue upon a change in control, we will issue to the funds an additional number of contingent shares equaling 8% of the initial 289,256 of contingent shares compounded annually from the Kourion Therapeutics acquisition date up to the date of issuance. Also in connection with our acquisition of Kourion Therapeutics, we issued to four of those funds promissory notes for a total of \$14.0 million, which accrue interest at a rate of 8.0% per annum and mature in September 2007, but are to be mandatorily prepaid by us upon closing of the offering made by this prospectus. Under the Kourion Therapeutics acquisition agreement, we are obligated to pay the five funds, and the other sellers of Kourion Therapeutics, future payments if and when the programs acquired in the transaction meet certain clinical trial milestones; the funds share of these potential payments equals approximately \$3.3 million. The payments can be satisfied in cash or Series I preferred stock (or, after we are publicly traded, common stock) at the recipient's election. Also in 2003, three other MPM-affiliated funds purchased from us 125,000 shares of our Series J preferred stock at a price of \$8.00 per share, for an aggregate purchase price of \$1.0 million. Also, under our current agreement with our preferred stockholders, one of the MPM-affiliated funds is entitled to appoint two members to our board of directors presently, Dr. Gadicke and Dr. Daley, a venture partner at MPM, occupy those board positions; this right terminates upon the closing of the offering being made in this prospectus.

Amgen Inc., one of our stockholders, is party to a license and collaboration agreement with us described above under Business Collaborations, Licenses and Strategic Relationships Amgen. We issued to Amgen a warrant to purchase 560,000 shares of our common stock at \$12.00 per share in April 2002 in connection with our initial license from them. In December 2003, when we expanded that arrangement through our current license and collaboration agreement with Amgen, they purchased 2,500,000 shares of our Series K preferred stock for \$20 million in cash.

James L.L. Tullis, a member of our board of directors, is the Chief Executive Officer of Tullis-Dickerson & Co., Inc. In 2001, investment funds affiliated with Tullis-Dickerson & Co. paid an aggregate price of \$3.0 million to purchase from us 375,000 shares of our Series I preferred stock at a \$8.00 per share. Tullis-Dickerson is entitled to appoint one member to our board of directors and has appointed Jim Tullis as this member. This right will expire upon the closing of the offering being made by this prospectus.

Funds affiliated with Zero Stage Capital, in 2001, purchased from us 250,000 shares of our Series I preferred stock at a price of \$8.00 per share, for an aggregate purchase price of \$2.0 million.

Cynthia A. Fisher, a co-founder of ViaCell and founder of Viacord, and a former officer of both companies, in 2001 exercised an option to purchase 250,000 shares of our common stock at an aggregate purchase price of \$82,500.

Denise Pollard-Knight, a member of our board of directors, is the head of Health Care Private Equity at Nomura International plc. In 2001, Nomura International purchased from us 125,000 shares of our Series I preferred stock at a price of \$8.00 per share, for an aggregate purchase price of \$1.0 million.

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Nomura International is entitled to appoint one member to our board of directors and has appointed Ms. Pollard-Knight as this member. This right will expire upon the closing of this offering.

Upon the closing of this offering, each share of preferred stock described above will convert into one share of our common stock.

Employment, Consulting and Director Agreements

In December 2000, we entered into a consulting agreement with Dr. Daley, one of our directors, regarding his service on our Medical and Scientific Advisory Board. Please refer to the section above entitled Management Director Compensation.

We have entered into an employment agreement with Mr. Beer and letter agreements with our other executive officers. For information regarding these agreements, please refer to the section entitled Management Employment and Severance Arrangements.

We compensate non-employee directors, who are not affiliates of an institutional stockholder, for their services on our board and its committees. Please refer to the section above entitled Management Director Compensation.

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The table below provides information about the beneficial ownership of our capital stock as of March 15, 2004 by (1) each person we know to beneficially own more than five percent of our outstanding capital stock, including preferred stock that will be automatically converted with common stock upon the closing of this offering, (2) each of our directors, (3) each of the named executive officers and (4) all directors and executive officers as a group. Except as indicated in the table or footnotes and pursuant to community property laws, each stockholders named in the table has sole voting and investment power with respect to the shares opposite that stockholder's name. Beneficial ownership is determined in accordance with the rules of the SEC; the information does not necessarily indicate beneficial ownership for any other purpose.

The Percentage of Shares Outstanding column below is based on 28,721,910 shares outstanding as of March 15, 2004, including shares of preferred stock on an as-converted basis, and also lists applicable percentage ownership based on shares of common stock outstanding after the closing of the offering. Options and warrants to purchase shares of our common or preferred stock that are currently exercisable or exercisable within 60 days after March 15, 2004, are deemed to be outstanding and beneficially owned by the person holding those options for the purpose of computing that person's percentage ownership, but are not treated as outstanding for the purpose of computing any other person's percentage ownership.

| Name and Address of Beneficial Owners(1) | Number of Shares Beneficially Owned | Percentage of Shares Outstanding | |
|--|--|----------------------------------|----------------|
| | | Before Offering | After Offering |
| MPM Asset Management LLC affiliated funds(2) 111 Huntington Avenue Boston, MA 02199 | 5,597,096 | 19.2% | |
| Amgen Inc.(3) One Amgen Center Drive Thousand Oaks, California 91320-1799 | 3,060,000 | 10.5 | |
| Tullis-Dickerson & Co., Inc. affiliated funds(4) 2 Greenwich Plaza, 4th Floor Greenwich, CT 06830 | 2,761,822 | 9.5 | |
| Zero Stage Capital affiliated funds(5) 101 Main Street, 17th Floor Cambridge, MA 02142 | 2,576,499 | 8.9 | |
| DWS Investment GmbH Feldberg Strasse 35 60612 Frankfurt am Main, Germany | 2,350,776 | 8.2 | |
| Cynthia A. Fisher 186 Park Street Newton, MA 02458 | 1,889,934 | 6.6 | |
| Nomura International plc(6) 1 St. Martin's le Grand London, EC1A 4NP, United Kingdom | 1,692,184 | 5.9 | |
| Cynthia A. Fisher 1999 Family Trust(7) c/o Jonathan Goldstein TA Associates, Inc. 125 High Street, Suite 2500 Boston, MA 02110 | 1,556,408 | 5.4 | |
| Ansbert Gadicke, M.D.(8) c/o MPM Asset Management 111 Huntington Avenue Boston, MA 02199 | 5,597,096 | 19.2 | |

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| Name and Address of Beneficial Owners(1) | Number of Shares Beneficially Owned | Percentage of Shares Outstanding | |
|--|--|----------------------------------|----------------|
| | | Before Offering | After Offering |
| James Tullis(9) c/o Tullis-Dickerson & Co., Inc. 2 Greenwich Plaza, 4th Floor Greenwich, CT 06830 | 2,761,822 | 9.5 | |
| Denise Pollard-Knight(10) c/o Nomura International plc 1 St. Martin s le Grand London, EC1A 4NP, United Kingdom | 1,692,184 | 5.9 | |
| Jan van Heek(11) Genzyme Corporation One Kendall Square Cambridge, MA 02139 | 630,000 | 2.2 | |
| Marc D. Beer(12) | 587,500 | 2.0 | |
| George Q. Daley, M.D., Ph.D.(13) Childrens Hospital Division of Hematology/Oncology 1 Blackfan Circle Boston, MA 02114 | 133,145 | * | |
| Kurt C. Gunter, M.D.(14) | 86,250 | * | |
| Christoph M. Adams, Ph.D.(15) | 68,750 | * | |
| Jeff Sacher(16) 12 Chanticleer Road Sudbury, MA 01776 | 56,063 | * | |
| Paul Hastings(17) QLT Inc. 887 Great Northern Way Vancouver, BC Canada V5T 4T5 | 28,291 | * | |
| Vaughn Kailian(18) | 10,000 | * | |
| All executive officers and directors as a group (11 persons)(19) | 11,602,850 | 38.3% | |

* Indicates less than 1%.

- (1) Unless otherwise indicated, the address of each shareholder is ViaCell, Inc., 131 Clarendon Street, 3rd Floor, Boston, Massachusetts 02116.
- (2) Consists solely of 4,568,835 shares owned by BB BioVentures, L.P., 334,481 shares owned by MPM BioVentures Parallel Fund, L.P., 25,173 shares owned by MPM Asset Management Investors 2000A LLC, 130,880 shares owned by MPM BioVentures II-QP, L.P., 46,089 shares owned by MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG, 14,444 shares owned by MPM BioVentures II, L.P., 2,715 shares owned by MPM Asset Management Investors 2001 LLC, 41,146 shares owned by MPM Founders LLC and fully-exercisable warrant to purchase 433,333 shares of common stock owned by BB BioVentures, L.P.

BAB BioVentures L.P., BAB BioVentures N.V. and MPM BioVentures I LLC are direct and indirect general partners/equity owners of BB BioVentures L.P. MPM BioVentures I L.P. and MPM BioVentures I LLC are the direct and indirect general partners of MPM BioVentures Parallel Fund, L.P. Luke Evnin, Ansbert Gadicke, and Michael Steinmetz are managers of MPM BioVen-

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tures I LLC and MPM Asset Management Investors 2000 A LLC. Each of the group disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein.

MPM Asset Management II, L.P. and MPM Asset Management II LLC are the direct and indirect general partners of MPM BioVentures II, L.P., MPM BioVentures II-QP, L.P. and MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG. Luke Evnin, Ansbert Gadicke, Nicholas Galakatos, Michael Steinmetz and Kurt Wheeler are investment managers of MPM Asset Management II LLC and MPM Asset Management Investors 2001 LLC. Each of the group disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein.

If the offering being made by this prospectus results in net proceeds to us of at least \$50 million at a public offering price of \$9.70 per share or higher, we will issue immediately after the offering a total of 289,256 shares to several MPM affiliated funds that are former stockholders of Kourion Therapeutics, a company we acquired in September 2003, as follows: 173,720 shares to MPM BioVentures II-QP, L.P., 61,175 shares to MPM BioVentures GmbH & Co. Parallel Bet. KG, 19,173 shares to MPM BioVentures, II, L.P., 3,603 shares to MPM Asset Management Investors 2001 LLC and 31,585 shares to MPM Founders LLC. Those shares are not reflected in this table. If those shares were to issue immediately after the closing of this offering, the MPM-affiliated funds would beneficially own an aggregate of 5,886,352 shares, or % of our outstanding common stock.

- (3) Includes a fully-exercisable warrant to purchase 560,000 shares of common stock.
- (4) Consists solely of 921,667 shares owned by TD Javelin Capital Fund, L.P., 681,838 shares owned by TD Javelin Capital Fund II, L.P., 558,317 shares owned by TD Lighthouse Capital Fund, L.P., 175,000 shares owned by TD Origen Capital Fund, L.P., 175,000 shares owned by Tullis-Dickerson Capital Focus II, L.P., and a fully-exercisable warrant to purchase 250,000 shares of common stock owned by TD Javelin Capital Fund, L.P. James L.L. Tullis, Thomas P. Dickerson, Joan P. Neuscheler, Timothy M. Buono and Lyle A. Hohnke have the voting and/or dispositive power over such shares. These individuals disclaim beneficial ownership of the shares owned by the above entities except to the extent of their proportionate pecuniary interests therein. All these funds are under common management of Tullis-Dickerson & Co., Inc., of which James L. Tullis, one of our directors, is chief executive officer.
- (5) Consists solely of 1,073,010 shares owned by Zero Stage Capital V L.P., 666,667 shares owned by Zero Stage Capital VI L.P., 526,271 shares owned by Zero Stage Capital VII L.P., 162,284 shares owned by Zero Stage Capital (Cayman) VII, L.P., 31,600 shares owned by Zero Stage Capital SBIC VII, L.P., and a fully-exercisable warrant to purchase 116,667 shares of common stock owned by Zero Stage Capital V L.P. Mr. Paul M. Kelley is a general partner of each of these funds. Mr. Kelley has voting and dispositive power of such shares. Mr. Kelley disclaims beneficial ownership of the shares owned by the above entities except to the extent of their proportionate pecuniary interest therein.
- (6) Dr. Pollard-Knight, one of our directors, is the head of Biopharma Private Equity at Nomura International plc and has voting and dispositive power of these shares.
- (7) The beneficiaries of this trust are Ms. Cynthia A. Fisher's children. The trustees of this trust are Kirstin Lynde and Jonathan Goldstein and they disclaim beneficial ownership of these shares.
- (8) Consists solely of 5,163,763 shares owned by MPM Asset Management affiliated funds and fully-exercisable warrants to purchase 433,333 shares of common stock owned by BB BioVentures, LP. See footnote 2 to this table. Dr. Gadicke is a manager of MPM Asset Management Investors 2000 A LLC and MPM Asset Management Investors 2001 LLC, as well as of MPM BioVentures I LLC and MPM Asset Management II LLC which are the direct and indirect general partners of several of the MPM-affiliated funds. Dr. Gadicke beneficially owns 20,573 shares through MPM Founders LLC. Dr. Gadicke shares voting and dispositive power with respect to the remaining shares held by, directly or indirectly, each of MPM-affiliated funds and disclaims beneficial ownership except to the extent of his pecuniary interest therein.

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- (9) Consists solely of 2,511,822 shares owned by Tullis-Dickerson & Co., Inc. affiliated funds and a fully-exercisable warrant to purchase 250,000 shares of common stock owned by TD Javelin Capital Fund, L.P. All these funds are under common management of Tullis-Dickerson & Co., Inc., of which Mr. Tullis is a chief executive officer. See footnote 4 to this table.
- (10) Consists solely of shares owned by Nomura International plc. Dr. Pollard-Knight is the head of Biopharma Private Equity at Nomura International plc. See footnote 6 to this table.
- (11) Consists solely of 625,000 shares owned by Genzyme and 5,000 options owned by Mr. Van Heek currently exercisable or exercisable within 60 days of March 15, 2004. Mr. Van Heek is an Executive Vice President of Genzyme. Mr. Van Heek disclaims beneficial ownership of the shares owned by Genzyme.
- (12) Consists solely of options currently exercisable or exercisable within 60 days of March 15, 2004.
- (13) Includes 95,875 options currently exercisable or exercisable within 60 days of March 15, 2004.
- (14) Consists solely of options currently exercisable or exercisable within 60 days of March 15, 2004.
- (15) Consists solely of options currently exercisable or exercisable within 60 days of March 15, 2004.
- (16) Includes 39,063 options currently exercisable or exercisable within 60 days of March 15, 2004.
- (17) Includes 25,000 options currently exercisable or exercisable within 60 days of March 15, 2004.
- (18) Consists solely of options currently exercisable or exercisable within 60 days of March 15, 2004.
- (19) Includes 886,187 shares of common stock issuable upon exercise of options currently exercisable or exercisable within 60 days of March 15, 2004 and fully-exercisable warrants to purchase 683,333 shares of stock. See footnotes (8)-(15) and (17)-(18) to this table.

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DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 80,000,000 shares of common stock and 30,825,000 shares of preferred stock. As of March 15, 2004, there were outstanding 2,672,497 shares of common stock held of record by a total of 36 stockholders and 25,810,932 shares of preferred stock.

Upon the closing of this offering:

Our corporate charter will be amended and restated to provide for total authorized capital consisting of 100,000,000 shares of common stock and 5,000,000 shares of undesignated preferred stock;

All outstanding shares of preferred stock will convert into 25,810,932 shares of common stock, and no shares of preferred stock will be outstanding; and

Based on the number of shares outstanding as of March 15, 2004, a total of _____ shares of common stock will be outstanding after giving effect to the sale of common stock we are offering hereunder, which:

includes 241,481 escrowed shares of common stock that we must release and 289,256 shares of common stock that we must issue to certain former stockholders of Kourion Therapeutics upon our closing a firm underwritten offering, including this offering, if the price per share to the public is at least \$9.70 and the offering results in net proceeds to us of at least \$50 million; and

does not include any exercise of the underwriters' over-allotment option or of any options or warrants.

Common Stock

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available therefor as the board may from time to time determine. Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not provided for in our certificate of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

Under our corporate charter, as amended and restated upon the closing of this offering, a total of 5,000,000 shares of preferred stock will be authorized for issuance, none of which will be designated in any series. Our board of directors is authorized, without further stockholder action, to authorize and issue any of the 5,000,000 undesignated shares of preferred stock in one or more series and to fix the voting rights, liquidation preferences, dividend rights, repurchase rights, conversion rights, preemption rights, redemption rights, and terms, including sinking fund provisions and certain other rights and preferences of such shares of our preferred stock. The issuance of any class or series of preferred stock could adversely affect the rights of the holders of common stock by restricting dividends on, diluting the power of, impairing the liquidation rights of common stock, or delaying, deferring, or preventing a change in control of our company.

Warrants

As of March 15, 2004, we had outstanding warrants to purchase 850,000 and 560,000 shares of common stock, with exercise prices of \$1.50 and \$12.00 per share, respectively. We also had an

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outstanding warrant to purchase 18,750 shares of Series J preferred stock convertible into common stock with an exercise price of \$8.00 per share. Of these warrants, warrants to purchase:

750,000 shares of common stock expire on November 12, 2007,

100,000 shares of common stock expire on May 21, 2009,

560,000 shares of common stock expire on April 9, 2009, and

18,750 shares of Series J preferred stock convertible into common stock expire on October 6, 2013.

The warrants contain anti-dilution provisions providing for adjustments of the exercise price and the number of shares underlying the warrants upon the occurrence of events, including any recapitalization, reclassification, stock dividend, stock split, stock combination or similar transaction.

Anti-Takeover Provisions of Delaware Law and our Charter and Bylaw Provisions

Section 203 of the Delaware General Corporation Law is applicable to corporate takeovers of Delaware corporations. Subject to exceptions enumerated therein, Section 203 provides that a corporation shall not engage in any business combination with any interested stockholder for a three-year period following the date that the stockholder becomes an interested stockholder unless:

prior to that date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, though some shares may be excluded from the calculation; and

on or subsequent to that date, the business combination is approved by the board of directors of the corporation and by the affirmative votes of holders of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Except as specified in Section 203, an interested stockholder is generally defined to include any person who, together with any affiliates or associates of that person, beneficially owns, directly or indirectly, 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation, any time within three years immediately prior to the relevant date. Under certain circumstances, Section 203 makes it more difficult for an interested stockholder to effect various business combinations with a corporation for a three-year period, although the stockholders may elect not to be governed by this section by adopting an amendment to the certificate of incorporation or by-laws, effective 12 months after adoption. Our certificate of incorporation and by-laws do not exclude us from the restrictions imposed under Section 203. We expect that the provisions of Section 203 may encourage companies interested in acquiring us to negotiate in advance with our board of directors. These provisions may have the effect of deterring hostile takeovers or delaying a change in control, which could depress the market price of the common stock and which could deprive stockholders of opportunities to realize a premium on shares of the common stock held by them.

In addition, provisions of our certificate of incorporation and bylaws, which will be in effect upon the closing of this offering and are summarized below, may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt and make more difficult attempts by stockholders to change management.

The certificate of incorporation includes provisions classifying the board of directors into three classes with staggered three-year terms. Under the certificate of incorporation and by-laws, the board of directors may enlarge the size of the board and fill any vacancies on the board.

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Our certificate of incorporation provides that stockholders may not take action by written consent but may only act at a stockholders meeting. The certificate of incorporation also provides that special meetings of our stockholders may only be called by the Chairman of the Board, the CEO (or President if there is no CEO), or the board of directors. Stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders, must provide timely notice of their intent in writing. Our bylaws contain the specific requirements as to the timing, form and content of a stockholder's notice.

Registration Rights

After this offering, the following shareholdings will be entitled to registration rights under the Securities Act: 13,333 shares of our outstanding common stock, approximately 25.8 million shares of our common stock issuable upon the conversion of our outstanding preferred stock and up to an additional approximately 1.4 million shares of our common stock which may become issuable upon exercise of outstanding warrants. Furthermore, if this offering results in net proceeds to us of at least \$50 million at a public offering price per share of \$9.70 or higher, we will release and issue upon closing this offering 241,481 escrowed shares and 289,256 contingent shares, respectively, of common stock with registration rights to former shareholders of a company that we acquired. If this offering does not meet that net proceeds or that offering price threshold, then we will, instead, issue warrants to existing investors in our Series J preferred stock to purchase up to 2,190,000 shares of common stock with registration rights. Under the terms of the agreements between us and the holders of those registrable shares, upon the request of the holders of certain amounts of these shares as set forth in the agreements, we are required to file a registration statement under the Securities Act with respect to their shares of common stock. Also, if we propose to register any of our securities under the Securities Act, other than in connection with demand registrations and registrations on Form S-8, the foregoing holders are entitled to notice of and to include in the registration shares of common stock owned by them. The holders of these registration rights have waived their rights with respect to this offering. All of these registration rights are subject to various conditions and limitations, among them certain rights of the underwriters of an offering to limit the number of shares included in a registration. We will bear all of the expenses incurred in connection with all exercises of these registration rights other than underwriting discounts and selling commissions.

Transfer Agent And Registrar

The transfer agent and registrar for our common stock is .

NASDAQ National Market Listing

We are applying for our common stock to be quoted on the Nasdaq National Market under the symbol VIAC.

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SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock, and a liquid trading market for our common stock may not develop or be sustained after this offering. Future sales of substantial amounts of common stock, including shares issued upon exercise of outstanding options and warrants, in the public market after this offering or the anticipation of those sales could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through sales of our equity securities.

After the closing of this offering, we will have outstanding _____ shares of common stock, assuming no exercise of the underwriters over-allotment option and no exercise of outstanding options or warrants. Of these shares, the shares sold in this offering will be freely tradable without restriction under the Securities Act unless purchased by any of our affiliates as that term is defined in Rule 144 under the Securities Act. Of the remaining shares of common stock outstanding, restricted shares held by existing stockholders are subject to the lock-up agreements described in Underwriting. Though these shares may be eligible for earlier sale under the provisions of the Securities Act, none of these shares will be saleable until 181 days after the date of this prospectus as a result of these lock-up agreements. Beginning 181 days after the date of this prospectus, _____ restricted shares will be eligible for sale in the US public market, subject to volume and other limitations. Immediately after the date of the prospectus, _____ restricted shares will be eligible for resale. The remainder of the _____ shares of common stock outstanding will become eligible for sale at various times over a period of approximately two years. In addition, as of March 15, 2004, there were outstanding options to purchase 5,450,172 shares of common stock and warrants to purchase 1,428,750 shares of common stock. Substantially all of the shares issued upon exercise will be subject to lock-up agreements.

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year is entitled to sell within any three-month period up to that number of shares that does not exceed the greater of: (1) 1% of the number of shares of common stock then outstanding, which immediately following this offering is expected to be approximately _____ shares, or (2) the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a Form 144 with respect to the sale. Sales under Rule 144 are also subject to certain _____ manner of sale provisions and notice requirements and to the requirement that current public information about the issuer be available. Under Rule 144(k), a person who is not deemed to have been an affiliate of the issuer at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner except an affiliate, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701 under the Securities Act permits resales of qualified shares held by some affiliates in reliance upon Rule 144 but without compliance with some restrictions, including the holding period requirement, of Rule 144. Any of our employees, officers, directors or consultants who purchased his or her shares pursuant to a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 further provides that non-affiliates may sell shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares of common stock are required to wait until 90 days after the date of this prospectus before selling shares. However, all shares issued pursuant to Rule 701 are subject to lock-up agreements and will only become eligible for sale upon the expiration of the 180-day lock-up.

Table of Contents**UNDERWRITING**

Credit Suisse First Boston LLC and UBS Securities LLC are acting as joint book-running managers for this offering.

Under the terms and subject to the conditions contained in an underwriting agreement dated _____, 2004, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC, UBS Securities LLC, Lazard Frères & Co. LLC and Leerink Swann & Company are acting as representatives, the following respective number of shares of common stock:

| Underwriters | Number of Shares |
|--------------------------------|---------------------|
| Credit Suisse First Boston LLC | |
| UBS Securities LLC | |
| Lazard Frères & Co. LLC | |
| Leerink Swann & Company | |
| Total | |

The underwriting agreement provides that the underwriters are obligated to purchase all of the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of the non-defaulting underwriters may be increased or this offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to _____ additional shares from us at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$ _____ per share on sales to other broker/ dealers. The underwriters and selling group members may allow a discount of \$ _____ per share on sales to other broker/ dealers. After the initial public offering, the representatives may change the public offering price and concession and discount to broker/ dealers.

The following table summarizes the compensation and estimated expenses we will pay:

| | Per Share | | Total | |
|---|---------------------------|------------------------|---------------------------|------------------------|
| | Without Over-allotment | With Over-allotment | Without Over-allotment | With Over-allotment |
| Underwriting Discounts and Commissions paid by us | \$ | \$ | \$ | \$ |
| Expenses payable by us | \$ | \$ | \$ | \$ |

The representatives have informed us that the underwriters do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the shares of common stock being offered.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended (the Securities Act) relating to, any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing without the prior written consent of both Credit Suisse First Boston LLC and UBS Securities LLC for a period of 180 days after the date of this prospectus, except issuances of common stock pursuant to the exercise of warrants or options, in each case outstanding on the date hereof, grants of employee stock options pursuant to the terms of a plan in effect on the date hereof (provided such options are not exercisable during the aforementioned 180-day period) and issuances of shares in connection with strategic acquisitions of technologies or businesses or establishment of strategic partnerships or collaborations complementary to our business (provided such shares are subject to restrictions on transfer for the remainder of the aforementioned 180-day period).

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Our executive officers, directors, other senior management and all of our securityholders are each a party to agreements by which they have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of both Credit Suisse First Boston LLC and UBS Securities LLC for a period of 180 days after the date of this prospectus except in the following circumstances:

by gift, will or intestacy;

to a member or members of the party's immediate family (i.e., any relation by blood, marriage or adoption, not more remote than first cousin);

to charitable organizations; or

if the party is an entity, (a) to corporations, partnerships, limited liability companies or other entities to the extent that such entities are wholly owned by it, or (b) by distribution to its partners, members or stockholders, provided however, that in such circumstances, it shall be a condition that such transfer shall not involve a disposition for value and that the transferee agrees to be bound in writing by the foregoing terms prior to such transfer. In addition, our executive officers, directors, other senior management and our securityholders agree that, without the prior written consent of Credit Suisse First Boston LLC and UBS Securities LLC, they will not, during the period ending 180 days after the date of this prospectus, make any demand for or exercise any right with respect to, the registration of any common stock or any security convertible into or exercisable or exchangeable for the common stock.

The underwriters have reserved for sale at the initial public offering price up to _____ shares of the common stock for employees, directors and other persons associated with us who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters against liabilities under the Securities Act or contribute to payments that the underwriters may be required to make in that respect.

We are applying to list the shares of common stock on the Nasdaq National Market under the symbol VIAC.

Credit Suisse First Boston LLC, UBS Securities, LLC, Lazard Frères & Co. LLC, and Leerink Swann & Company and their respective affiliates may, in the past have engaged or, in the future engage in financial advisory, commercial banking and investment banking services with us for which they will receive customary compensation.

Prior to this offering, there has been no public market for our common stock. The initial public offering price for our common stock will be determined by negotiation between us and the underwriters. The principal factors to be considered in determining the initial public offering price include the following:

the information included in this prospectus and otherwise available to the underwriters;

market conditions for initial public offerings;

the history of and prospects for our business, our past and present operations;

the history and prospects for the industry in which we compete;

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our past and present earnings and current financial position;

an assessment of our management;

the market of securities of companies in businesses similar to ours; and

the general condition of the securities markets.

There can be no assurance that the initial public offering price will correspond to the price at which our common stock will trade in the public market subsequent to this offering or that an active trading market will develop and continue after this offering.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format will be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

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NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of our common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of our common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,

where required by law, that the purchaser is purchasing as principal and not as agent, and

the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action – Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of our common stock, for rescission against us in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the common stock. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for our common stock. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which our common stock were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the common stock as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

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Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

Our counsel, Ropes & Gray LLP, Boston, Massachusetts, will pass on the validity of the shares of common stock offered by this prospectus. Marc Rubenstein, a partner of Ropes & Gray LLP, is our Secretary. Dewey Ballantine LLP, New York, is counsel to the underwriters in connection with this offering.

EXPERTS

The consolidated financial statements for ViaCell, Inc. as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 included in this prospectus have been so included in reliance on the report (which contains an explanatory paragraph related to the change in the method of accounting for goodwill and other intangible assets as described in Note 2) of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Kourion Therapeutics AG as of September 30, 2003 and December 31, 2002, and for the nine months ended September 30, 2003 and for the year ended December 31, 2002, included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers, GmbH, independent accountants given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1, including the exhibits, schedules and amendments to the registration statement, under the Securities Act of 1933 with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all the information set forth in the registration statement. For further information with respect to ViaCell and the shares of common stock to be sold in this offering, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in certain instances reference is made to the copy of the contract, agreement or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by this reference.

You may read and copy all or any portion of the registration statement or any other information we file at the SEC's public reference room at 450 Fifth Street, NW, Washington, DC 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings, including the registration statement, are also available to you on the SEC's Website (<http://www.sec.gov>).

As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934, and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC.

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ViaCell, Inc.

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related statements of operations, comprehensive loss, stockholders equity (deficit) and cash flows present fairly, in all material respects, the financial position of ViaCell, Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
March 29, 2004

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Table of Contents**ViaCell, Inc.****Consolidated Balance Sheets**

| | As of December 31, | | |
|--|----------------------|----------------------|--|
| | 2002 | 2003 | Pro Forma 2003 (Note 2) (unaudited) |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 15,239,089 | \$ 39,007,880 | \$ 39,007,880 |
| Short-term investments | 13,949,264 | 7,823,852 | 7,823,852 |
| Accounts receivable, net | 6,418,263 | 7,676,439 | 7,676,439 |
| Prepaid expenses and other current assets | 665,603 | 4,106,358 | 4,106,358 |
| | <u>36,272,219</u> | <u>58,614,529</u> | <u>58,614,529</u> |
| Property and equipment, net | 6,621,315 | 7,892,116 | 7,892,116 |
| Goodwill, net of accumulated amortization of \$789,550 in both 2002 and 2003 | 3,620,750 | 3,620,750 | 3,620,750 |
| Intangible assets, net of accumulated amortization of \$1,152,283 and \$1,413,517 in 2002 and 2003, respectively | 3,536,055 | 3,274,721 | 3,274,721 |
| Restricted cash | 5,895,367 | 2,834,109 | 2,834,109 |
| Other assets | 173,519 | 1,924,870 | 1,924,870 |
| | <u>56,119,225</u> | <u>78,161,095</u> | <u>78,161,095</u> |
| Total assets | \$ 56,119,225 | \$ 78,161,095 | \$ 78,161,095 |
| LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT) | | | |
| Current liabilities | | | |
| Current portion of long-term debt obligations | \$ 2,130,872 | \$ 1,611,604 | \$ 1,611,604 |
| Accounts payable | 2,760,443 | 3,363,875 | 3,363,875 |
| Accrued expenses | 3,856,490 | 10,011,022 | 10,011,022 |
| Note payable to related party | | 14,280,000 | 14,280,000 |
| Contingent purchase price | | 4,245,896 | 4,245,896 |
| Deferred revenue | 2,117,638 | 2,244,972 | 2,244,972 |
| | <u>10,865,443</u> | <u>35,757,369</u> | <u>35,757,369</u> |
| Deferred revenue | 1,787,220 | 3,157,884 | 3,157,884 |
| Contingent purchase price | | 3,909,104 | 3,909,104 |
| Long-term debt obligations, net of current portion | 3,042,001 | 3,346,672 | 3,346,672 |
| | <u>15,694,664</u> | <u>46,171,029</u> | <u>46,171,029</u> |
| Total liabilities | 15,694,664 | 46,171,029 | 46,171,029 |
| Redeemable convertible preferred stock (at redemption value); authorized 21,696,809 and 30,396,809 shares in 2002 and 2003, respectively; issued and outstanding 20,375,721 and 25,628,075 shares in 2002 and 2003, respectively; 0 issued and outstanding pro forma (unaudited) | 110,911,677 | 162,141,437 | |
| Commitments and contingencies (Notes 8 and 9) | | | |
| Stockholders' (deficit), equity: | | | |

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| | | | |
|---|-----------------------------|-----------------------------|-----------------------------|
| Convertible preferred stock, \$0.01 par value; authorized 428,191 shares; issued and outstanding 182,857 shares (liquidation preference of \$245,000) in 2002 and 2003; 0 issued and outstanding pro forma (unaudited) | 1,829 | 1,829 | |
| Common stock, \$0.01 par value; authorized 35,000,000 and 80,000,000 shares in 2002 and 2003, respectively; issued and outstanding 2,558,574, 2,659,854, and 28,470,786 shares in 2002, 2003 and 2003, pro forma (unaudited) respectively | 25,586 | 26,599 | 287,124 |
| Additional paid-in capital | 8,821,678 | 1,437,260 | 163,320,001 |
| Deferred compensation | (6,125,680) | (3,422,375) | (3,422,375) |
| Accumulated deficit | (73,210,529) | (128,678,779) | (128,678,779) |
| Accumulated other comprehensive income | | 484,095 | 484,095 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total stockholders' equity (deficit) | (70,487,116) | (130,151,371) | 31,990,066 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit) | \$ 56,119,225 | \$ 78,161,095 | \$ 78,161,095 |
| | <u> </u> | <u> </u> | <u> </u> |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ViaCell, Inc.****Consolidated Statements of Operations**

| | Years Ended December 31, | | |
|---|--------------------------|-----------------------|-----------------------|
| | 2001 | 2002 | 2003 |
| Processing and storage revenues | \$ 7,068,742 | \$ 20,087,773 | \$ 30,884,201 |
| Grant and contract revenues | 229,167 | 286,862 | 995,494 |
| Total revenues | 7,297,909 | 20,374,635 | 31,879,695 |
| Operating expenses: | | | |
| Cost of revenues | 3,069,649 | 5,877,402 | 10,399,220 |
| Research and development | 6,978,088 | 11,429,043 | 13,225,957 |
| Sales and marketing | 9,348,791 | 16,578,500 | 20,959,187 |
| General and administrative | 7,086,296 | 10,919,794 | 15,221,356 |
| In-process technology | 594,295 | 5,888,713 | 23,925,023 |
| Stock-based compensation(1) | 4,490,162 | 6,463,519 | 3,232,179 |
| Total operating expenses | 31,567,281 | 57,156,971 | 86,962,922 |
| Loss from operations | (24,269,372) | (36,782,336) | (55,083,227) |
| Interest income | 2,242,460 | 891,772 | 348,476 |
| Interest expense | (106,581) | (147,464) | (733,499) |
| Total interest income (expense), net | 2,135,879 | 744,308 | (385,023) |
| Net loss | (22,133,493) | (36,038,028) | (55,468,250) |
| Accretion on redeemable convertible preferred stock | 6,619,692 | 8,143,606 | 9,416,114 |
| Net loss attributable to common stockholders | \$(28,753,185) | \$(44,181,634) | \$(64,884,364) |
| Net loss per share | | | |
| Net loss per common share, basic and diluted | \$ (12.22) | \$ (17.60) | \$ (24.63) |
| Weighted average shares used in basic and diluted net loss per share computation | 2,352,468 | 2,510,632 | 2,634,096 |
| Pro forma net loss per common share (basic and diluted) (unaudited) | | | \$ (2.32) |
| Weighted average shares used in pro forma net loss per common share (basic and diluted) computation (unaudited) | | | 23,865,902 |

(1) Allocation of stock-based compensation expense is as follows:

| | 2001 | 2002 | 2003 |
|----------------------------|-----------|-----------|--------------|
| Cost of revenues | \$ 19,792 | \$ 7,282 | \$ 1,073,325 |
| Research and development | 2,249,357 | 2,488,801 | 413,571 |
| Sales and marketing | 221,977 | 670,412 | 1,738,001 |
| General and administrative | 2,018,828 | 3,284,514 | |

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| | | | |
|--|-------------|-------------|-------------|
| Total stock-based compensation expense | \$4,490,162 | \$6,463,519 | \$3,232,179 |
|--|-------------|-------------|-------------|

Consolidated Statements of Comprehensive Loss

| | Years Ended December 31, | | |
|---|--------------------------|-----------------|-----------------|
| | 2001 | 2002 | 2003 |
| Net loss | \$ (22,133,493) | \$ (36,038,028) | \$ (55,468,250) |
| Foreign currency translation adjustment | | | 484,095 |
| Comprehensive loss | \$ (22,133,493) | \$ (36,038,028) | \$ (54,984,155) |

The accompanying notes are an integral part of these consolidated financial statements.

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ViaCell, Inc.

Consolidated Statements of Stockholders Equity (Deficit):

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-in Capital | Deferred Compensation | Accumulative Other Comprehensive Income | Total Stockholders Equity (Deficit) |
|--|-----------------------------|------------------|------------------|------------------|----------------------------|-----------------------|---|-------------------------------------|
| | Number of Shares | \$0.01 Par Value | Number of Shares | \$0.01 Par Value | | | | |
| Balance, December 31, 2000 | 182,857 | \$ 1,829 | 2,073,847 | \$ 20,739 | \$ | \$ (359,633) | \$ (15,039,008) | \$ (15,376,073) |
| Stock option exercises | | | 289,395 | 2,894 | 88,922 | | | 91,816 |
| Issuance of common stock | | | 64,637 | 646 | 99,455 | | | 100,101 |
| Stock options issued in connection with the Cerebrotec acquisition | | | | | 493,932 | (390,154) | | 103,778 |
| Stock options issued to collaborator | | | | | 594,295 | | | 594,295 |
| Accretion of redeemable preferred stock to redemption value | | | | | (6,619,692) | | | (6,619,692) |
| Non-employee stock compensation | | | | | 2,195,017 | | | 2,195,017 |
| Deferred compensation | | | | | 10,469,249 | (10,469,249) | | |
| Amortization of deferred compensation | | | | | | 2,295,145 | | 2,295,145 |
| Net loss | | | | | | | (22,133,493) | (22,133,493) |
| Balance, December 31, 2001 | 182,857 | 1,829 | 2,427,879 | 24,279 | 7,321,178 | (8,923,891) | (37,172,501) | (38,749,106) |
| Stock option exercises | | | 102,362 | 1,024 | 30,319 | | | 31,343 |
| Stock warrant exercises | | | 13,333 | 133 | 39,866 | | | 39,999 |
| Issuance of common stock | | | 15,000 | 150 | 19,900 | | | 20,050 |
| Stock warrants issued to collaborator | | | | | 5,888,713 | | | 5,888,713 |
| Non-employee stock compensation | | | | | 449,012 | | | 449,012 |
| Deferred compensation | | | | | 3,216,296 | (3,216,296) | | |
| Amortization of deferred compensation | | | | | | 6,014,507 | | 6,014,507 |
| Accretion of redeemable preferred stock | | | | | (8,143,606) | | | (8,143,606) |

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| | | | | | | | | | |
|--|-----------|----------|------------|------------|----------------|----------------|------------------|------------|------------------|
| to redemption value | | | | | | | | | |
| Net loss | | | | | | | (36,038,028) | | (36,038,028) |
| Balance, December 31, 2002 | 182,857 | 1,829 | 2,558,574 | 25,586 | 8,821,678 | (6,125,680) | (73,210,529) | | (70,487,116) |
| Stock option exercises | | | 101,280 | 1,013 | 52,996 | | | | 54,009 |
| Stock warrant exercises | | | | | | | | | |
| Issuance of stock warrants | | | | | 1,449,826 | | | | 1,449,826 |
| Accretion of redeemable preferred stock to redemption value | | | | | (9,416,114) | | | | (9,416,114) |
| Non-employee stock compensation | | | | | 251,480 | | | | 251,480 |
| Deferred compensation | | | | | 804,323 | (804,323) | | | |
| Amortization of deferred compensation | | | | | | | 2,980,699 | | 2,980,699 |
| Forfeiture of stock options | | | | | (526,929) | 526,929 | | | |
| Net loss | | | | | | | (55,468,250) | | (55,468,250) |
| Cumulative translation adjustment | | | | | | | | 484,095 | 484,095 |
| Balance, December 31, 2003 | 182,857 | \$ 1,829 | 2,659,854 | \$ 26,599 | \$ 1,437,260 | \$ (3,422,375) | \$ (128,678,779) | \$ 484,095 | \$ (130,151,371) |
| Conversion of redeemable convertible preferred stock and convertible preferred stock into common stock (unaudited) | (182,857) | (1,829) | 25,810,932 | 260,525 | 161,882,741 | | | | 162,141,437 |
| Pro forma balance December 31, 2003 (unaudited) | | \$ | 28,470,786 | \$ 287,124 | \$ 163,320,001 | \$ (3,422,375) | \$ (128,678,779) | \$ 484,095 | \$ 31,990,066 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ViaCell, Inc.****Consolidated Statements of Cash Flows**

| | Years Ended December 31, | | |
|--|--------------------------|---------------------|---------------------|
| | 2001 | 2002 | 2003 |
| Cash flows from operating activities | | | |
| Net loss | \$(22,133,493) | \$(36,038,028) | \$(55,468,250) |
| Adjustments to reconcile net loss to net cash used in operating activities | | | |
| Depreciation and amortization | 2,193,754 | 1,987,743 | 2,517,646 |
| Stock-based compensation | 4,490,162 | 6,463,519 | 3,232,179 |
| Noncash charge for acquired in-process research and development | 594,295 | 5,888,713 | 23,925,023 |
| Other | | | 4,359 |
| Changes in assets and liabilities, excluding the effect of acquisitions | | | |
| Accounts receivable | (2,976,220) | (3,054,339) | (1,256,769) |
| Prepaid expenses and other current assets | (434,414) | 10,465 | (2,266,483) |
| Accounts payable | 1,049,254 | 757,354 | 414,683 |
| Accrued expenses | 1,060,893 | 1,308,179 | 4,909,771 |
| Deferred revenue | 1,910,629 | 1,580,282 | 1,497,998 |
| | <u>(14,245,140)</u> | <u>(21,096,112)</u> | <u>(22,489,843)</u> |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (2,391,090) | (4,816,312) | (1,825,870) |
| Acquisition of Cerebrotec | (86,132) | | |
| Proceeds from maturities of investments | 3,005,845 | 38,973,455 | 15,812,672 |
| Purchase of investments | (39,601,820) | (15,579,979) | (9,687,260) |
| Increase in other assets | (80,065) | (71,631) | (1,751,350) |
| Cash acquired in acquisition, net of acquisition costs | | | 3,737,929 |
| | <u>(39,153,262)</u> | <u>18,505,533</u> | <u>6,286,121</u> |
| Cash flows from financing activities | | | |
| Proceeds from issuance of redeemable convertible preferred stock, net | 14,921,206 | 1,500,000 | 36,887,171 |
| Proceeds from exercise of stock options and warrants | 91,816 | 71,342 | 42,599 |
| Proceeds from issuance of common stock | 100,101 | 20,050 | |
| Restricted cash | (740,000) | (3,792,909) | 3,210,105 |
| Proceeds from credit facilities | 1,350,000 | 4,900,000 | 5,000,000 |
| Repayments on credit facilities | (397,164) | (1,087,050) | (5,451,556) |
| Repayment of note payable to related party | | (215,247) | |
| Payments on capital lease principal | (22,919) | (11,074) | (49,375) |
| | <u>15,303,040</u> | <u>1,385,112</u> | <u>39,638,944</u> |
| Effect of change in exchange rates on cash | | | 333,569 |
| | <u>(38,095,362)</u> | <u>(1,205,467)</u> | <u>23,768,791</u> |
| Net increase (decrease) in cash and cash equivalents | | | |

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| | | | |
|---|-----------------------------|-----------------------------|-----------------------------|
| Cash and cash equivalents, beginning of year | 54,539,918 | 16,444,556 | 15,239,089 |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents, end of year | \$ 16,444,556 | \$ 15,239,089 | \$ 39,007,880 |
| | <u> </u> | <u> </u> | <u> </u> |
| Supplemental disclosures of cash flow information and noncash transactions | | | |
| Interest paid | \$ 93,669 | \$ 183,452 | \$ 260,117 |
| Acquisitions (Note 3) | 752,000 | | 28,705,000 |
| Accretion of redeemable convertible preferred stock | 6,619,692 | 8,143,606 | 9,416,114 |
| Equipment purchased under capital lease (Note 2) | | | 154,855 |

The accompanying notes are an integral part of these consolidated financial statements.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003

1. Organization and Nature of Business

ViaCell, Inc. (the Company) was incorporated in the State of Delaware on September 2, 1994 as t.Breeders Inc. The Company was in the development stage until April 11, 2000 at which time the Company completed a merger with Viacord, Inc. (Viacord), an umbilical cord blood collection, processing and preservation company, and changed its name to ViaCell, Inc.

The Company is a biotechnology company engaged in sourcing, developing and commercializing cellular therapies to address cancer, infertility, and certain genetic and cardiac diseases. ViaCell's mission is to enable the widespread application of human cells as medical therapy. ViaCell's lead stem cell product candidate, CB001, is manufactured using one of the Company's proprietary technologies which allows the isolation, purification and significant expansion of populations of stem cells, and enables the production of well defined cellular products in therapeutically useful quantities. The Company is developing CB001 for use in bone marrow and other hematopoietic stem cell transplants. The Company's current commercialized service is Viacord, a leading brand in the cryopreservation of umbilical cord stem cells, primarily for pediatric bone marrow transplantations. In addition, the Company is developing a product expected to offer women the ability to preserve their fertility through the proprietary application to the human oocyte (egg) of a naturally occurring sugar which acts as a cryopreservative.

On September 30, 2003, ViaCell acquired the outstanding shares of Kourion Therapeutics AG (Kourion) in a purchase business combination. Under the terms of the agreement, shareholders of Kourion exchanged all of their outstanding shares for a \$14 million note and 549,854 shares of ViaCell's Series I convertible preferred stock. As potential additional consideration, the Company issued 241,481 additional shares of Series I convertible preferred stock to an escrow account and reserved 289,256 shares of Series I convertible preferred stock for possible issuance in the future (Note 3).

The accompanying financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company anticipates that its working capital at December 31, 2003 will be sufficient to finance its operations through at least the next twelve months. However, the Company may need to raise additional financing to meet its long-term needs. In the event the Company's operations are not profitable or do not generate sufficient cash to fund the business, or if the Company fails to raise additional financing, the Company may have to substantially cut back its level of operations. These reductions could, in turn, affect the Company's relationships with its strategic partners and customers. The Company's future is dependent upon its ability to generate cash from operations or raise additional financing.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Unaudited Pro Forma Presentation

Unaudited pro forma net loss per share is computed using the weighted average number of common shares outstanding, including the pro forma effects of automatic conversion of all outstanding redeemable convertible preferred stock into shares of the Company's common stock effective upon the assumed closing of the Company's proposed initial offering as if such conversions had occurred at the date of original issuance. In addition, all accretion of preferred stock has been eliminated in the determination of net loss attributable to common stockholders.

Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****2. Summary of Significant Accounting Policies (Continued)**

The unaudited pro forma consolidated balance sheet and the unaudited pro forma information included in the consolidated statements of stockholders' equity (deficit) as of December 31, 2003, reflect the automatic conversion of all outstanding shares of convertible preferred stock into 25,810,932 shares of common stock upon the closing of the Company's proposed initial public offering (IPO).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Cash, Cash Equivalents and Investments

The Company considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Investments with remaining maturities of 12 months or less are classified as short-term investments. Investments with maturities greater than 12 months are classified as long-term investments. Investments in debt securities are classified as either held-to-maturity or available-for-sale based on facts and circumstances at the time of purchase. Investments for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments and are reported at amortized cost plus accrued interest, which approximates fair market value. As of each balance sheet date presented all investments are classified as cash and cash equivalents or held-to-maturity. To date, the Company has not recorded any realized gains or losses on the sale of investments.

| | 2002 | | 2003 | |
|--|----------------|---------------|----------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Cash and cash equivalents | | | | |
| Money market accounts | \$ 13,272,731 | \$ 13,272,731 | \$ 31,569,792 | \$ 31,569,792 |
| Government securities | | | 1,725,006 | 1,725,006 |
| Cash | 1,966,358 | 1,966,358 | 5,713,082 | 5,713,082 |
| Total cash and cash equivalents | 15,239,089 | 15,239,089 | 39,007,880 | 39,007,880 |
| Short-term investments | | | | |
| Commercial paper | 13,949,264 | 13,956,073 | 7,823,852 | 7,815,775 |
| Total investments | 13,949,264 | 13,956,073 | 7,823,852 | 7,815,775 |
| Total cash, cash equivalents and investments | 29,188,353 | 29,195,162 | 46,831,732 | 46,823,655 |
| Certificates of deposit (restricted) | 5,895,367 | 5,895,367 | 2,834,109 | 2,834,109 |
| Total cash, cash equivalents, certificates of deposit (restricted) and investments | \$ 35,083,720 | \$ 35,090,529 | \$ 49,665,841 | \$ 49,657,764 |

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In connection with Company's commitments under various agreements (Notes 8 and 9) and one of the Company's operating bank accounts, the Company issued letters of credit collateralized by certificates of deposit that are classified as restricted cash on the accompanying consolidated balance sheet.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company recognizes revenue from cord blood processing and storage fees in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements*. The Company receives fees for collecting, testing, freezing and storing of cord blood units. Once the cord blood units are collected, tested, screened and successfully meet all of the required attributes, the Company freezes the units and stores them in a cryogenic freezer. Upon successful completion of collection, testing, screening and freezing services, the Company recognizes revenue from the processing fees.

When evaluating multiple element arrangements subsequent to July 1, 2003, the Company considers whether the components of the arrangement represent separate units of accounting as defined in Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). EITF 00-21 requires the following criteria to be met for an element to represent a separate unit of accounting:

- a) The delivered items have value to a customer on a standalone basis;
- b) There is objective and reliable evidence of the fair value of the undelivered items; and
- c) Delivery or performance is probable and within the control of the vendor for any delivered items that have a right of return.

The Company has concluded that the collection, testing and freezing service has stand-alone value to the customer and that the Company has objective evidence of fair value of the undelivered storage services. The fair value of the storage services is based on the annual storage fee charged to customers.

The Company charges an initial fee which covers collection, testing, freezing and, typically, one year of storage. The Company defers the fair value of the revenue related to the future storage and recognizes the remainder of the revenue under the residual method. The adoption of EITF 00-21 did not impact the Company's revenue recognition model.

Revenue recognized from the collection, testing and freezing of cord blood units was \$6,627,000, \$18,473,000 and \$27,768,000 for the years ended December 31, 2001, 2002, and 2003, respectively.

Revenue from storage fees is recognized over the contractual period on a straight-line basis and amounted to approximately \$442,000, \$1,614,000 and \$3,116,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

Deferred revenue of \$3,905,000 and \$5,403,000 at December 31, 2002 and 2003, respectively, include the unearned portions of annual storage fees and deposits paid by customers prior to completion of our processing service.

The Company recognizes shipping costs billed to customers as revenues and records a corresponding amount as cost of revenues.

In February 2002, the EITF released EITF Issue No. 01-09 (EITF 01-09), *Accounting for Consideration Given by a Vendor*, to a customer (including a reseller of the vendor's products). EITF 01-09 states that cash consideration (including a sales incentive) given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement, rather than a sales and marketing expense. The Company conducts rebate programs for its customers and the total amount of these rebates was \$75,600 and \$783,000 for the years ended December 31, 2002 and 2003,

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

2. Summary of Significant Accounting Policies (Continued)

respectively. The rebates have been recorded as a reduction in processing revenue. There were no rebates given in the year ended December 31, 2001.

Revenues from short-term research contracts are recognized over the contract period as services are provided. Revenue from research contracts amounted to \$229,000, \$157,000 and \$363,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

The Company recognized approximately \$130,000 and \$633,000 in grant revenue in the years ended December 31, 2002 and 2003, respectively, under the Economic Development Board of Singapore and German economic development grants. Under these grant agreements, the Company is reimbursed for certain defined expenses. The Company did not receive any grant revenue in the year ended December 31, 2001.

Cost of Revenues

Cost of revenues reflects the cost of transporting, testing, processing and storing cord blood at the Company's cord blood processing facility in Hebron, Kentucky, as well as a royalty to PharmaStem Therapeutics, Inc. relating to ongoing patent infringement litigation. The Company recorded a royalty expense of approximately \$3,300,000 in 2003 following an unfavorable jury verdict in October 2003 which found infringement. This expense included a royalty of approximately \$2,900,000 on revenues from cord blood preservation through October 29, 2003, plus an accrual of 6.125% of subsequent revenues through December 31, 2003. Pending further action by the courts, the Company will continue recording a royalty expense at 6.125% of cord blood processing revenues. Costs incurred related to grant revenue are included in research and development expense.

Advertising Costs

Costs of media advertising are expensed at the time the advertising takes place. Advertising expense totaled approximately \$1,462,000, \$1,782,000 and \$1,815,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

Research and Development Expenses

Research and development costs, which are comprised of costs incurred in performing research and development activities including wages and related employee benefits, clinical trial costs, contract services, supplies, facilities and overhead costs, are expensed as incurred.

In-process Technology

The Company expenses costs of purchased technology used in our ongoing research and development activities in the period of purchase if management believes the technology has not yet reached technical feasibility and has no alternative future use (Notes 3, 9, 10, 11 and 12).

Foreign Currency Translation

The financial statements of the Company's German subsidiary, Kourion, are translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*. The functional currency of Kourion is the local currency (euro), and accordingly, all assets and liabilities of the foreign subsidiary are translated using the exchange rate at the balance sheet date except for capital accounts which are translated at historical rates. Revenues and expenses are translated at average rates

Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****2. Summary of Significant Accounting Policies (Continued)**

during the period. Adjustments resulting from the translation from the financial statements of Kourion into US dollars are excluded from the determination of net loss and are accumulated in accumulated other comprehensive income within stockholders' equity. Foreign currency translation gains and losses are reported in the accompanying consolidated statements of operations and are immaterial to the results of operations.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, as well as net operating loss carryforwards, and are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets may be reduced by a valuation allowance to reduce deferred tax assets to the amounts expected to be realized.

Property and Equipment

Property and equipment are initially recorded at cost and depreciated over the estimated useful lives on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset or the lease term, if shorter. The Company accounts for internal-use software and web-site development costs in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* and classifies such costs as software within property and equipment.

Useful lives are as follows:

| Asset Classification | Estimated Useful Life |
|-------------------------------|------------------------------|
| Software | 2-3 years |
| Laboratory equipment | 5-10 years |
| Office and computer equipment | 3-5 years |
| Leasehold improvements | Life of lease |
| Furniture and fixtures | 5-7 years |

Maintenance and repairs are charged to expense as incurred. When assets are impaired or otherwise disposed of, the cost of these assets and the related accumulated depreciation and amortization are eliminated from the balance sheet and any resulting gains or losses are included in operations in the period of disposal.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, capital lease obligations, equipment loans and notes payable to related party. The carrying value of the short-term financial instruments approximates their fair value due to their short maturities and the carrying value of the long-term financial instruments approximate their fair value based on current rates offered to the Company for debt with similar maturities.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

2. Summary of Significant Accounting Policies (Continued)

Goodwill and Other Intangible Assets

The Company's intangible assets consist of:

- goodwill;
- employment contracts;
- purchased technology rights;
- customer lists; and
- trademarks.

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires that amortization of goodwill and certain intangibles be replaced with periodic tests of goodwill's impairment and that other intangibles be amortized over their useful lives unless these lives are determined to be indefinite. SFAS No. 142 requires that goodwill be tested annually for impairment under a two-step impairment process or whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable.

The Company amortizes other intangible assets using the straight-line method over useful lives of 3 years for employment agreements and 20 years for trademarks.

Accounting for the Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets for potential impairment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company performs these evaluations whenever events or changes in circumstances suggest that the carrying amount of an asset or group of assets is not recoverable. Indicators of potential impairment include but are not limited to:

- a significant change in the manner in which an asset is used;
- a significant decrease in the market value of an asset;
- a significant adverse change in its business or the industry in which it is sold; and
- a current period operating cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the asset.

If management believes an indicator of potential impairment exists, we test to determine whether impairment recognition criteria in SFAS No. 144 have been met. The Company charges impairments of the long-lived assets to operations if its evaluations indicate that the carrying values of these assets are not recoverable.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, short-term investments, restricted cash and accounts receivable. At December 31, 2002 and 2003, substantially all of the Company's cash, cash equivalents and short-term investments were invested in highly rated financial institutions and consisted of money market funds and highly-rated commercial paper.

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At December 31, 2002 and 2003, the Company had cash balances at certain financial institutions in excess of federally insured limits. However, the Company does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****2. Summary of Significant Accounting Policies (Continued)**

The Company provides most of its services to consumers. Concentration of credit risk with respect to trade receivables balances are limited due to the diverse number of customers comprising the Company's customer base. The Company performs ongoing evaluations of its receivable balances and maintains reserves for potential credit loss. At December 31, the Company's allowance for doubtful accounts receivable consisted of the following:

| Description | Balance at Beginning of Period | Additions to Costs and Expenses | Deductions | Balance at End of Period |
|--|--------------------------------------|---------------------------------------|------------|--------------------------------|
| Allowance for doubtful accounts receivable | | | | |
| Year ended December 31, 2001 | 72,160 | 79,635 | (1,595) | 150,200 |
| Year ended December 31, 2002 | 150,200 | 158,277 | (39,496) | 268,981 |
| Year ended December 31, 2003 | 268,981 | 776,667 | (2,080) | 1,043,568 |

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, the successful development and commercialization of products, clinical trial uncertainty, fluctuations in operating results and financial risks, potential need for additional funding, protection of proprietary technology and patent risks, compliance with government regulations, dependence on key personnel and collaborative partners, competition, technological and medical risks, customer demand, management of growth and effectiveness of marketing by the Company and by third parties.

The Company's cord blood collection, testing and processing activities are currently subject to Food and Drug Administration (FDA) regulations requiring infectious disease testing. In the future, the Company may have to list its cord blood preservation products with the FDA. The Company also may be subject to inspection by the FDA.

Redeemable Convertible Preferred Stock

The carrying value of redeemable convertible preferred stock is increased by periodic accretions, including cumulative dividends, so that the carrying amount will equal the redemption amount at the earliest redemption date. These increases are effected through charges to additional paid-in capital to the extent there are any, and, thereafter, to accumulated deficit.

Stock-Based Compensation

The Company uses the intrinsic value method of Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its employee stock options, and presents disclosure of pro forma information required under SFAS No. 123, and SFAS No. 148, *Accounting for Stock-Based Compensation*.

The Company accounts for equity instruments issued to nonemployees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, which require that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation may be subject to periodic adjustment as the underlying equity instruments vest.

During the years ended December 31, 2001, 2002 and 2003, the Company issued 1,920,888, 1,383,468 and 713,436 options, respectively, with an exercise price below deemed fair market value as subsequently determined. In 2001, 2002 and 2003, in connection with the grant of employee stock options, the

Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****2. Summary of Significant Accounting Policies (Continued)**

Company recorded deferred stock compensation of approximately \$10,500,000, \$3,200,000 and \$800,000, respectively, representing the difference between the exercise price and the deemed fair value for financial reporting purposes of the Company's common stock on the date these stock options were granted. Deferred compensation is included as a reduction of stockholders' deficit and is amortized over the vesting period of the individual award, generally four years, consistent with the method described in FASB Interpretation No. 28. During the years ended December 31, 2001, 2002 and 2003, the Company recorded amortization of deferred stock compensation of approximately \$2,300,000, \$6,000,000 and \$3,000,000, respectively. When stock options are forfeited prior to vesting, any previously recognized stock-based compensation is reversed and any remaining deferred compensation is eliminated. At December 31, 2003, approximately \$3,400,000 of deferred stock compensation related to stock options remained unamortized.

During the years ended December 31, 2001, 2002 and 2003, the Company recorded stock-based compensation expense of approximately \$2,200,000, \$449,000 and \$251,000, respectively, related to options granted to nonemployees. The Company recorded approximately \$5,900,000 of expense in 2002 in connection with issuance of warrants in exchange for a technology license and \$594,000 of expense in 2001 in connection with options issued to a scientific collaborator.

Had all employee stock-based compensation expense been determined using the fair value method and amortized on a straight-line basis over the vesting period of the related options consistent with SFAS No. 123, the pro forma net loss per share would have been as follows:

| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|--|-----------------------|-----------------------|-----------------------|
| Net loss attributable to common stockholders as reported | \$(28,753,185) | \$(44,181,634) | \$(64,884,364) |
| Add: stock-based compensation expense included in reported net loss | 2,295,145 | 6,014,507 | 2,980,699 |
| Deduct: total stock-based compensation expense determined under fair value based method for all awards | (1,115,122) | (4,017,251) | (4,256,829) |
| Pro forma net loss attributable to common stockholders | <u>\$(27,573,162)</u> | <u>\$(42,184,378)</u> | <u>\$(66,160,494)</u> |
| Basic and diluted net loss per share | | | |
| As reported | \$ (12.22) | \$ (17.60) | \$ (24.63) |
| Pro forma | <u>\$ (11.72)</u> | <u>\$ (16.80)</u> | <u>\$ (25.12)</u> |

The Company has computed the pro forma disclosures required under SFAS No. 123 for all stock options granted to employees and directors of the Company as of December 31, 2001, 2002 and 2003 using the Black-Scholes option pricing model prescribed by SFAS No. 123.

The assumptions used for the years ended December 31, are as follows:

| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|-------------------------|-------------|-------------|-------------|
| Risk-free interest rate | 5.00% | 3.82% | 2.00% |

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| | | | |
|---------------------|---------|---------|---------|
| Expected life | 5 years | 5 years | 5 years |
| Expected volatility | 0% | 110% | 100% |
| Dividend yield | 0% | 0% | 0% |

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****2. Summary of Significant Accounting Policies (Continued)**
Segment Information

The Company's management currently uses consolidated financial information in determining how to allocate resources and assess performance. The Company may organize its business into more discrete business units when and if it generates significant revenue from the sale of stem cell therapies. For these reasons, the Company has determined that it conducts operations in one business segment.

The following table presents total long-lived tangible assets by geographic areas as of December 31, 2003:

| | |
|----------------------------------|-------------|
| Long-lived tangible assets | |
| United States | \$6,483,125 |
| Germany | 1,408,991 |
| | <hr/> |
| Total long-lived tangible assets | \$7,892,116 |
| | <hr/> |

There were no long-lived tangible assets outside the United States prior to the Company's acquisition of Kourion on September 30, 2003.

Comprehensive Loss

Comprehensive loss is comprised of net loss and certain changes in stockholders' equity that are excluded from net loss. The Company includes foreign currency translation adjustments for Kourion in other comprehensive loss.

Net Loss Per Common Share

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants and the conversion of convertible preferred stock (using the if-converted method). Potentially dilutive common shares are excluded from the calculation if their effect is anti-dilutive.

The following sets forth the computation of basic and diluted net loss per share:

| | Year Ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2001 | 2002 | 2003 |
| | <hr/> | <hr/> | <hr/> |
| Basic and diluted net loss per share | | | |
| Net loss attributable to common stockholders | \$(28,753,185) | \$(44,181,634) | \$(64,884,364) |
| Weighted average number of common shares outstanding | 2,352,468 | 2,510,632 | 2,634,096 |
| | <hr/> | <hr/> | <hr/> |
| Basic and diluted net loss per share | \$ (12.22) | \$ (17.60) | \$ (24.63) |
| | <hr/> | <hr/> | <hr/> |

Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****2. Summary of Significant Accounting Policies (Continued)**

The following potentially dilutive securities were excluded because their affect was antidilutive:

| | Year Ended December 31, | | |
|-----------------------------|-------------------------|------------|------------|
| | 2001 | 2002 | 2003 |
| Options | 3,935,258 | 3,824,199 | 4,374,160 |
| Warrants | 863,333 | 1,246,666 | 1,413,906 |
| Convertible preferred stock | 20,371,078 | 20,558,578 | 25,810,932 |

The following sets forth the computation of pro forma net loss per share (unaudited):

| | Year Ended December 31, 2003 |
|---|------------------------------------|
| Pro forma net loss | |
| Net loss attributable to common stockholders | \$(64,884,364) |
| Accretion of preferred stock to redemption value | 9,416,114 |
| Pro forma net loss | \$(55,468,250) |
| Shares used in computing pro forma basic and diluted net loss per share | |
| Weighted average number of common shares outstanding | 2,634,096 |
| Weighted average impact of assumed conversion of preferred stock at the beginning of the period | 21,231,806 |
| Shares used in computing pro forma net loss per share | 23,865,902 |
| Basic and diluted pro forma net loss per share | \$ (2.32) |

Potentially dilutive common shares of 4,798,591, 5,070,865 and 5,788,066 for the years ended December 31, 2001, 2002 and 2003, related to the assumed exercise of the outstanding options and warrants, were excluded from the pro forma diluted calculation because their effect would be antidilutive.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Instruments with Characteristics of both Liabilities and Equity* (SFAS No. 150). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of these instruments were previously classified as equity. This statement is effective for new or existing contracts at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement did not have a material impact on the Company's financial statements.

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In December 2003, the FASB issued FASB Interpretation No. 46-R (FIN 46-R) a revised interpretation of FASB Interpretation No. 46 (FIN 46). FIN 46-R requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46-R are effective for all arrangements entered into after January 31, 2003. For all arrangements entered into after January 31, 2003, the Company is required to continue to apply FIN 46-R through the end of the first quarter of fiscal 2004. The Company does not have any equity interests that

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

2. Summary of Significant Accounting Policies (Continued)

would change its current reporting or require additional disclosures outlined in FIN 46-R. For arrangements entered into prior to February 1, 2003, the Company is required to adopt the provisions of FIN 46-R in the first quarter of fiscal 2004. The Company does not have any equity interests that would change its current reporting or require additional disclosures outlined in FIN 46-R.

3. Acquisitions

Acquisition of Kourion Therapeutics AG

In September 2003, the Company acquired all the outstanding common shares of Kourion Therapeutics AG (Kourion), in a taxable exchange for 549,854 shares of Series I convertible preferred stock, valued at approximately \$4.4 million. The Company also issued promissory notes to a related party totaling \$14.0 million in principal amount to funds affiliated with the former holders of all outstanding preferred shares of Kourion and incurred acquisition-related costs totaling \$2.1 million.

As potential additional consideration, the Company issued 241,481 additional shares of Series I convertible preferred stock to an escrow account (escrow shares) and reserved 289,256 shares of Series I convertible preferred stock (contingent shares) for possible issuance in the future. The escrowed shares will be released, and the contingent shares will issue, upon the earlier of a change in control of the Company or an underwritten public offering of its common stock at a price per share of at least \$9.70 resulting in net proceeds of at least \$50 million. If neither event occurs prior to September 30, 2006, the escrow shares will revert back to the Company and the contingent shares will never issue. If the contingent shares issue upon a change in control, the recipients of these shares will be issued an additional number of shares equal to 8% of the initial number of contingent shares issued compounded annually from the acquisition closing date to the date of issuance.

Under the acquisition agreement, the Company is also obligated to make payments to Kourion's former shareholders if certain Unrestricted Somatic Stem Cells (USSC's)-related programs assumed in the acquisition achieve certain milestones. Should all these milestones be achieved, including final FDA approval of the developed products, the Company would have to pay a total of \$12.0 million, either in stock or cash at each shareholders' option.

The fair value of the net assets acquired from Kourion exceeded the total consideration paid by ViaCell, resulting in negative goodwill of approximately \$8.2 million. Because the acquisition involves contingent consideration, the Company is required to recognize additional purchase consideration equal to the lesser of the negative goodwill of \$8.2 million or the maximum amount of contingent consideration of \$16.2 million. Accordingly, contingent purchase price totaling \$8.2 million has been included in the Company's determination of the total purchase price. The total contingent consideration consists of the \$12.0 million of potential milestone payments to the Kourion shareholders, the 241,481 escrow shares with a face value of \$2.0 million and the 289,256 contingent shares with a face value of \$2.3 million. Because the milestone payments are less likely to be paid, the contingent consideration included in purchase price consists of a current liability of \$4.3 million related to the escrow shares and contingent shares, and a noncurrent liability of \$3.9 million relating to the contingent milestone payments.

The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Kourion subsequent to September 2003 are included in the Company's consolidated statement of operations.

Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****3. Acquisitions (Continued)**

The aggregate purchase price of \$28,705,000 consists of the following:

| | |
|--------------------------------------|--------------|
| Series I convertible preferred stock | \$ 4,400,000 |
| Note payable to related party | 14,000,000 |
| Acquisition costs | 2,150,000 |
| Contingent consideration | 8,155,000 |
| | <hr/> |
| Total purchase price | \$28,705,000 |
| | <hr/> |

The aggregate purchase price was allocated as follows:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 4,563,000 |
| Other current assets, net | 1,125,000 |
| Property and equipment | 1,432,000 |
| Other assets | 139,000 |
| Current liabilities | (513,000) |
| Capital lease obligation | (141,000) |
| In-process technology | 22,100,000 |
| | <hr/> |
| | \$28,705,000 |
| | <hr/> |

Upon consummation of the Kourion acquisition, the Company immediately expensed to in-process technology \$22.1 million, representing a portion of the fair value allocated to in-process research and development (IPR&D).

The Company believes that this charge represents a reasonably reliable estimate of the future benefits attributed to purchased IPR&D. The value assigned to IPR&D was composed of the projected value of the two Kourion preclinical drug development projects. The valuation was determined using the income approach. Potential revenue and drug development expenses were projected through 2021 based on management's estimates. Specifically, management estimated that the development of the Kourion programs through clinical trials to commercial viability will take approximately eight years and cost in excess of \$31.0 million. The discounted cash flow method was applied to the projected cash flows, adjusted for the probability of success using a discount rate of 23%. The discount rate takes into consideration the uncertainty surrounding successful development and commercialization of the IPR&D. The technology that the Company acquired in the transaction with Kourion is at an early stage and will require several more years of development before a therapeutic product can be developed and commercialized. Given the risks inherent in the clinical development and regulatory approval process, it is possible that no commercial product will ever result from this technology.

Pro Forma Results of Operations (Unaudited)

The following unaudited pro forma combined results of operations for the Company assume that the Kourion acquisition was completed as of January 1, 2002.

2002

2003

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| | | |
|---------------|----------------|----------------|
| Total revenue | \$ 21,441,000 | \$ 32,505,000 |
| Net loss | \$(39,654,000) | \$(36,277,000) |

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****3. Acquisitions (Continued)**

These pro forma amounts represent the historical operating results of Kourion prior to the date of acquisition, combined with those of the Company with appropriate adjustments which eliminate the write off of the in-process technology and include two years interest expense related to the note payable to a related party for pro forma periods ended December 31, 2002 and 2003, respectively. These pro forma results are not necessarily indicative of operating results that would have occurred if Kourion had been operated by current management during the periods presented.

Acquisition of Cerebrotec

In June 2001, the Company acquired all the outstanding shares of common stock of Cerebrotec, Inc. (Cerebrotec). The Company issued approximately 92,081 options to purchase common stock of the Company valued at approximately \$494,000 and \$6,000 in cash, in exchange for all the outstanding common stock and options of Cerebrotec. The Company also incurred acquisition costs of approximately \$80,000 in connection with this purchase. The options issued were valued using the Black-Scholes option pricing model with the following assumptions:

| | |
|------------------------------------|---------|
| Risk-free interest rate | 4.71% |
| Contract term | 5 years |
| Expected volatility | 110% |
| Dividend yield | 0% |
| Exercise price | \$0.95 |
| Fair market value at date of grant | \$5.80 |

The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Cerebrotec subsequent to June 2001 are included in the Company's consolidated statement of operations.

The aggregate purchase price of \$752,000 consists of the following:

| | |
|---|-----------|
| Cash | \$ 6,000 |
| Options to purchase common stock | 494,000 |
| Liabilities assumed and acquisition costs | 252,000 |
| | <hr/> |
| Total purchase price | \$752,000 |
| | <hr/> |

The purchase price was allocated based upon the fair value of the tangible and intangible assets acquired. In accordance with FIN No. 44, the intrinsic value of the portion of the unvested options related to future service period of \$390,000 has been allocated to deferred compensation in stockholders' deficit. The unvested portion is being amortized to operating expense over the remaining vesting period of approximately five years.

The purchase price was allocated as follows:

| | |
|------------------------|-----------|
| Current assets, net | \$ 37,000 |
| Property and equipment | 8,000 |
| Employment contracts | 317,000 |
| Deferred compensation | 390,000 |
| | <hr/> |

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| | |
|-----------------------|-----------|
| Total assets acquired | \$752,000 |
|-----------------------|-----------|

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****4. Property and Equipment**

At December 31, property and equipment consisted of:

| | 2002 | 2003 |
|---|--------------|--------------|
| Software | \$ 2,054,813 | \$ 2,714,477 |
| Laboratory equipment | 3,519,218 | 5,647,104 |
| Office and computer equipment | 1,456,344 | 2,147,608 |
| Leasehold improvements | 2,267,827 | 2,310,729 |
| Furniture and fixtures | 313,083 | 358,172 |
| Construction in progress | | 274,030 |
| Property and equipment, gross | 9,611,285 | 13,452,120 |
| Less: accumulated depreciation and amortization | (2,989,970) | (5,560,004) |
| Property and equipment, net | \$ 6,621,315 | \$ 7,892,116 |

At December 31, 2003 the net book value of property and equipment serving as collateral under loan agreements amounted to \$4,721,000. Prior to October 2003, collateral was supported by letters of credit.

At December 31, 2002 and 2003, equipment held under capital leases totaled \$180,327 and \$584,374, and accumulated depreciation related to this leased equipment totaled approximately \$119,000 and \$224,430, respectively.

Depreciation and amortization expense on property and equipment totaled approximately \$1,266,000, \$1,616,000 and \$2,256,000 in the years ended December 31, 2001, 2002, and 2003.

5. Long-Lived Assets and Goodwill

Intangible assets consist of trade names, customer base, assembled workforce and goodwill. Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, was amortized on a straight-line basis over its useful life of ten years prior to January 1, 2002.

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This Statement requires, among other things, that goodwill and certain other intangibles no longer be amortized, but instead tested for impairment at least annually. The Company has completed the transitional and annual impairment tests as required by SFAS No. 142 upon adoption at January 1, 2002 and again on December 31, 2002 and 2003. Based on the results of these analyses, no impairment of goodwill was identified. The Company did not record any amortization of goodwill for the periods ended December 31, 2002 and 2003. Amortization of goodwill and intangible assets subject to SFAS No. 142 was \$385,880 for the year ended December 31, 2001.

| | |
|---|----------------|
| 2001 net loss attributable to common stockholders as reported | \$(28,753,185) |
| Add: goodwill amortization | 385,880 |
| Adjusted 2001 net loss attributable to common stockholders | \$(28,367,305) |

In connection with the adoption of SFAS 142, the Company reassessed the useful life of its intangible assets and determined the useful life of the Viacord trademark to be 20 years, not 10 years as estimated at the time of acquisition. As a result of the change in the estimated useful life of this asset, amortization expense recorded for the year ended December 31, 2002 was approximately \$240,000 less than the year

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****5. Long-Lived Assets and Goodwill (Continued)**

ended December 31, 2001. Amortization of intangible assets was approximately \$543,000, \$372,000 and \$261,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

At December 31, 2002 and 2003, ViaCell's goodwill and intangible assets consisted of the following:

| | <u>2002</u> | <u>2003</u> |
|--------------------------------|---------------------|---------------------|
| Goodwill | \$ 4,410,300 | \$ 4,410,300 |
| Less: accumulated amortization | (789,550) | (789,550) |
| Goodwill, net | <u>\$ 3,620,750</u> | <u>\$ 3,620,750</u> |
| Intangible assets | | |
| Trademark | \$ 4,400,000 | \$ 4,400,000 |
| Employment agreements | 288,238 | 288,238 |
| Less: accumulated amortization | <u>(1,152,183)</u> | <u>(1,413,517)</u> |
| Intangible assets, net | <u>\$ 3,536,055</u> | <u>\$ 3,274,721</u> |

6. Accrued Expenses

At December 31, accrued expenses consisted of the following:

| | <u>2002</u> | <u>2003</u> |
|----------------------------------|--------------------|---------------------|
| Accrued patent royalties | \$ | \$ 3,257,639 |
| Payroll and payroll related | 1,154,987 | 1,487,932 |
| Management incentive | 416,032 | 481,209 |
| Professional fees | 1,025,660 | 2,766,042 |
| Accrued marketing | 858,637 | 865,455 |
| Collection and testing materials | 41,985 | 452,133 |
| Other | 359,189 | 700,612 |
| | <u>\$3,856,490</u> | <u>\$10,011,022</u> |

7. Income Taxes

Our income (loss) before income taxes is as follows:

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| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|---------------------------|--------------|--------------|--------------|
| Domestic | (22,133,493) | (35,667,790) | (52,299,065) |
| Foreign | | (370,238) | (3,169,185) |
| Total Income Before Taxes | (22,133,493) | (36,038,028) | (55,468,250) |

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****7. Income Taxes (Continued)**

Our provisions for income taxes were at rates other than the US federal statutory tax rate for the following reasons:

| | For the Years Ended December 31, | | |
|-------------------------------|---|-------------|-------------|
| | 2001 | 2002 | 2003 |
| US Statutory rate | 34.00% | 34.0% | 34.0% |
| State taxes, net | 7.83% | 6.92% | 2.01% |
| Foreign rate differential | 0.00% | (0.13)% | 0.44% |
| Benefit of tax credits | 1.29% | 1.63% | 1.32% |
| Change in valuation allowance | (41.53)% | (41.53)% | (14.82)% |
| Stock based compensation | 0.00% | 0.00% | (8.07)% |
| In process R&D | 0.00% | 0.00% | (14.67)% |
| Other | (1.48)% | (0.89)% | (0.21)% |
| Effective tax rate | 0.0% | 0.0% | 0.0% |

The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets or liabilities are computed based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted tax rates. Deferred income tax expense or credits are based on changes in the asset or liability from period to period. The components of net deferred tax assets (liabilities) are described in the following table:

| | For the Years Ended December 31, | |
|----------------------------------|---|---------------|
| | 2002 | 2003 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 17,756,996 | \$ 31,159,658 |
| Tax credits | 2,213,461 | 2,542,262 |
| Stock-based compensation | 6,878,104 | 3,782,964 |
| Reserves, accruals, and other | 3,624,949 | 6,151,824 |
| Gross deferred tax assets | 30,473,510 | 43,636,708 |
| Valuation allowance | (28,965,573) | (42,233,874) |
| Net deferred tax assets | 1,507,937 | 1,402,834 |
| Deferred tax liabilities: | | |
| Intangible assets | (1,507,937) | (1,402,834) |
| Net deferred tax liabilities | \$ 0 | \$ 0 |

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The Company has recorded a full valuation allowance against its net deferred tax assets because, based on the weight of available evidence, the Company believes it is more likely than not that the deferred tax assets will not be realized in the near future. At December 31, 2003, the Company has federal and state net operating loss carryforwards of approximately \$67,513,985 and \$68,165,739 respectively, which begin to expire in 2009 and 2004, respectively. The Company has federal and state credit carryforwards of approximately \$1,866,414 and \$1,024,011 which begin to expire in 2009 and 2013, respectively. The Company also has foreign net operating loss carryforwards of \$9,225,188. The carryforwards expire through 2023 and are subject to review and possible adjustment by the Internal Revenue Service. Ownership changes, as defined in the Internal Revenue Code, may have limited the

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****7. Income Taxes (Continued)**

amount of net operating loss carryforwards that can be utilized annually to offset future taxable income.

At December 31, the Company's valuation allowance consisted of the following:

| Description | Balance at Beginning of Period | Additions | Deductions | Balance at End of Period |
|---------------------|--------------------------------------|------------|------------|--------------------------------|
| Valuation Allowance | | | | |
| 2001 | 3,038,000 | 10,482,000 | | 13,520,000 |
| 2002 | 13,520,000 | 15,465,573 | | 28,965,573 |
| 2003 | 28,965,573 | 13,268,301 | | 42,233,874 |

8. Long-Term Obligations

The Company had the following long-term debt outstanding as of December 31, 2002 and 2003:

| | 2002 | 2003 |
|--|--------------|--------------|
| Debt facility loans | \$ 5,171,761 | \$ 4,668,690 |
| Related party note payable | | 14,280,000 |
| Capital lease obligations | 1,112 | 289,586 |
| Total long-term debt | 5,172,873 | 19,238,276 |
| Less: current portion | (2,130,872) | (15,891,604) |
| Total long-term debt, net of current portion | \$ 3,042,001 | \$ 3,346,672 |

Debt facility

During 2000, 2001 and 2002, the Company entered into several equipment term loans with the same financial institution. Outstanding borrowings under these agreements amounted to \$5,172,000 at December 31, 2002. These borrowings bore an interest rate of 4.25%-4.75% per annum, were collateralized by equipment purchased and letters of credit of \$1,350,000 and certificates of deposit of \$4,425,788. Letters of credit were collateralized by a \$649,999 certificate of deposit. These borrowings were prepaid in 2003.

In October 2003, the Company entered into a \$5,000,000 loan agreement with a financial institution. Borrowings under this agreement bear interest at 6.9 percent per annum and are collateralized by the fixed assets of the Company. Monthly payments of interest and principal are due through October 2006. Approximately \$4,669,000 was outstanding under this loan as of December 31, 2003. The Company was also required to make a \$1,750,000 cash deposit with the lender as additional collateral for this loan. This deposit is included with other noncurrent assets in the accompanying consolidated balance sheet. As of December 31, 2003, the net book value of the fixed assets collateralized under this agreement was \$4,721,000.

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The Company also issued a warrant, in connection with the above financing, for the purchase of 18,750 shares of Series J preferred stock with an exercise price of \$8 per share with a life of ten years. The Company valued the warrant under a Black-Scholes model deriving a fair market value of approximately \$57,000. This amount was recorded as a deferred financing cost and is being amortized over the term of the note. Total warrant amortization was approximately \$4,000 for the period ended December 31, 2003.

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****8. Long-Term Obligations (Continued)**

In connection with this debt facility, the Company entered into a negative pledge agreement with GE Capital Corp. that, among other things, precludes it from rolling, transferring, assigning, mortgaging, leasing, granting a security interest in or encumbering any of its intellectual property. The negative pledge agreement, however, does not preclude the Company from granting a license or sublicense in the ordinary course of business. There are no financial covenants associated with this new agreement.

Note Payable to Related Party

A portion of the consideration paid by the Company in its acquisition of Kourion Therapeutics consisted of promissory notes in an aggregate principal amount of \$14.0 million. The notes are held by several funds that are also stockholders of the Company and that are affiliated with MPM Asset Management LLC, the manager of which serves on the Company's board of directors. The notes bear interest at a rate of 8% per annum, compounded annually, and mature on September 30, 2007. The Company recorded \$280,000 in accrued interest related to this note for the period ended December 31, 2003. They are subject to mandatory prepayment upon the earlier of an initial public offering of the Company's common stock or a sale of the Company. The Company has classified this note as a current liability because the Company expects to complete its initial public offering during 2004. The total outstanding principal and unpaid accrued interest on the notes as of December 31, 2003 was \$14,280,000.

Capital Lease Obligations

The Company leases scientific equipment under lease agreements that qualify for capitalized treatment under SFAS No. 13, *Accounting for Leases*.

At December 31, 2003, payments of principal and interest on existing debt were due as follows:

| | Year Ending December 31, |
|-----------------------|--------------------------|
| 2004 | \$ 16,208,527 |
| 2005 | 1,917,445 |
| 2006 | 1,578,066 |
| 2007 | 39,640 |
| 2008 | 34,743 |
| Thereafter | 132,611 |
| Total payment | 19,911,032 |
| Less: interest | (672,756) |
| Total debt | 19,238,276 |
| Less: current portion | (15,891,604) |
| Total long-term debt | \$ 3,346,672 |

9. Commitments and Contingencies

Leases

The Company conducts its operations in leased facilities under noncancelable operating leases expiring through 2014.

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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****9. Commitments and Contingencies (Continued)**

Future minimum rental payments under the operating leases are approximately as follows:

| Year Ending December 31, | |
|-----------------------------|----------------------|
| 2004 | \$ 1,675,083 |
| 2005 | 2,027,864 |
| 2006 | 1,926,922 |
| 2007 | 1,963,716 |
| 2008 | 1,767,785 |
| Thereafter | 9,942,983 |
| Total lease payments | \$ 19,304,353 |

Rent expense was approximately \$861,000, \$1,566,000 and \$1,797,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

In connection with the above commitments, the Company has issued letters of credit totaling approximately \$1,922,710 as collateral against these leases. These letters of credit are collateralized by certificates of deposit that are classified as restricted cash on the accompanying balance sheets.

Agreements

In June 2001, the Company obtained an exclusive license to two US patents and four US patent applications owned by Massachusetts General Hospital (MGH) covering methods and compositions invented by Dr. Seth Finklestein for promoting neurological recovery. To maintain this MGH license, ViaCell is obligated to pay minimum royalties of \$10,000 for each of the years ended December 31, 2001 through 2003, \$20,000 for each of the years ended December 31, 2004 through 2007 and \$40,000 for each of the years subsequent to December 31, 2007. In addition, the Company will make payments contingent upon the successful achievement of certain product development milestones totaling a minimum of \$1,000,000. This license will expire on a product-by-product and country-by-country basis one year after the Company last sells a product in a given country, unless all underlying patents earlier expire.

In June 2001, Kourion entered into a consulting agreement with Prof. Dr. Peter Wernet, professor at the Institute of Transplantation Immunology and Cell Therapeutics at Heinrich Heine University in Düsseldorf, Germany. Under this agreement, Dr. Wernet will provide consulting services to Kourion related to its scientific and clinical activities. Dr. Wernet will be paid on a per hour basis for services, up to a limit of \$63,000 per year. The agreement runs for a period of ten years, and is cancelable only for cause.

In October 2001, the Company entered into a research collaboration agreement and stock option agreement with Genzyme Corporation. Under the terms of the research agreement, the Company is required to use diligent efforts to test the effect of Genzyme's proprietary stem cell stimulant on the growth of hematopoietic stem cells in the Company's Selective Amplification process. The Company and Genzyme have committed personnel to conduct this research project. The agreement expired in October 2002. As disclosed in Note 12, under the stock option agreement, the Company granted an option to Genzyme to purchase an aggregate of \$3,000,000 of shares of Series I preferred stock or such other series of preferred stock most recently issued by the Company at the time of exercise of the option. One half of the option is exercisable at any time after issuance. This portion had a fair value of \$594,000 and was recorded as in-process technology at the time of issuance. The remaining portion vests based on the achievement of certain milestones. As disclosed in Note 12, Genzyme exercised the vested portion in

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

9. Commitments and Contingencies (Continued)

January 2002 to purchase Series I convertible preferred stock, and the Company and Genzyme mutually agreed to terminate the remaining portion of the option.

In January 2002, the Company entered into a marketing agreement with Mothers Work under which the Company is committed to spend a minimum of \$1,150,000 over a 24-month period. As of December 31, 2003, the Company had spent approximately \$1,400,000 related to this agreement and had no further obligation under this agreement.

In January 2002, the Company executed two sponsored research agreements with MGH, one relating to amyotrophic lateral sclerosis (ALS) research and the other relating to muscular dystrophy research. Pursuant to these two agreements, the Company funded Dr. Robert Brown's work in these areas for 12 months, complementing its internal development efforts in ALS and muscular dystrophy and potentially providing it with new intellectual property. Under the agreements the Company paid approximately \$200,000 to MGH, and provided cord blood stem cell populations expanded through Selective Amplification to Dr. Brown for experiments in mouse models of ALS and muscular dystrophy. These two agreements expired in January 2003. The Company is in the process of establishing new contracts with Dr. Brown and MGH.

In March 2002, the Company entered into a license agreement with MGH under which the Company received exclusive, worldwide rights to make, have made, use, sell, offer for sale, and import products based on patents (currently pending) covering inventions of Dr. Joel Habener pertaining to pancreatic stem cells for treatment of diabetes. In exchange for these rights, as part of this agreement, the Company committed to spend up to \$2,000,000 in the first 18 months of the agreement to achieve a defined set of research objectives which support pre-clinical development of a pancreatic stem cell product for the treatment of diabetes. As of December 31, 2003, the Company had spent approximately \$1,400,000 on this project, and no further financial obligation relating to this commitment is remaining. Under this agreement, the Company was also obligated to reimburse MGH for \$53,300 in patent costs incurred to date, of which \$26,650 was paid in April 2002 and the remaining balance of \$26,650 was paid in April 2003. In addition, the Company shall pay certain amounts to MGH, contingent upon the achievement of certain milestones as defined in the agreement, totaling a minimum of \$900,000 and shall pay royalties to MGH upon commercial sale of products covered under the license. No royalties were paid in connection with this agreement.

In August 2002, the Company entered into a license agreement with Massachusetts Institute of Technology (MIT) under which the Company receives exclusive, worldwide rights to make, have made, use, sell, offer for sale and import products based on patents (currently pending) pertaining to a novel molecule invented by Dr. Ram Sasisekharan for treatment of neurological disorders, including stroke. In exchange for these rights, the Company has paid an upfront fee of \$50,000 (less \$10,000 previously paid as an option fee) and has reimbursed MIT for approximately \$9,000 in past patent costs. In addition, the Company shall pay certain amounts to MIT upon the achievement of certain milestones defined in the agreement totaling a maximum of \$500,000 for each licensed product or process and shall pay royalties to MIT upon commercial sale of products covered under the license. No milestone payments were made under this agreement.

The Company has entered into an agreement to provide no more than \$4,000,000 to fund stem cell research and development programs conducted in Singapore. Under this agreement, the government of Singapore reimburses a portion of these expenses under a grant. The Company funded \$527,000 and \$968,000 of research and development in Singapore during the years ended December 31, 2002 and 2003, respectively.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

9. Commitments and Contingencies (Continued)

Effective January 1, 2003, the Company entered into a license agreement with GlaxoSmithKline and Glaxo Group Limited for a nonexclusive license to four specific forms of thrombopoietin mimetics for certain ex vivo uses. In consideration for the license, the Company issued 12,500 shares of its Series I preferred stock as of March 31, 2003 and paid a fee of \$115,000 in January 2004. The value of the Series I preferred stock of \$100,000 was charged to in-process technology. In addition, the Company will be required to make certain milestone payments relating to the clinical development of products that incorporate the technology provided under this license agreement. The Company will be required to pay royalties on the sale of commercial products incorporating the licensed technology. The Company had paid no royalties under this agreement and has accrued \$165,000 in annual license fees for FY2003.

On July 15, 2003, the Company entered into a license agreement with Gamete Technology, Inc. for the exclusive rights to utilize intellectual property developed by Gamete and MGH in the field of human oocyte cryopreservation and storage. In exchange for these rights, the Company is required to pay certain royalties on preservation and storage revenues from products that incorporate the licensed technology. The Company is also required to spend at least \$2,500,000 to develop this technology during the first eighteen months of the agreement, including fees of approximately \$810,000 payable directly to Gamete under a consulting agreement. As of December 31, 2003, the Company had paid Gamete \$432,000 for consulting services and expensed \$655,000 in the development of human oocyte cryopreservation. No amounts were paid under the royalty provision.

In December 2003, the Company entered into a license and collaboration agreement with Amgen Inc., under which it licensed certain stem cell growth factors from Amgen for use in developing and manufacturing cell therapy products, and granted Amgen an option to collaborate on any product or products that incorporate any of those growth factors. There is no limit on the number of such products for which Amgen can exercise its option. Each time Amgen exercises its option, it must partially reimburse the Company for its past development costs on the optioned product (Collaboration Product), share in the future development costs and take primary responsibility for clinical development, regulatory matters, marketing and commercialization of the product through a joint venture with the Company. Amgen must also pay ViaCell a one-time payment for each Collaboration Product following the achievement of the first regulatory approval of the first indication in the United States. Profits and losses arising from the commercialization of Collaboration Products will be shared by Amgen and the Company. The agreement terminates on the later of expiration of the licensed Amgen patents or when no products are being co-developed or jointly commercialized between us and Amgen.

Pursuant to this license and collaboration agreement, Amgen purchased 2,500,000 shares of the Company's Series K convertible preferred stock for proceeds of \$20,000,000, less issuance costs of \$127,000 (see Note 10).

The Company's bylaws provide for the indemnification of officers and directors for certain events or occurrences while the officer is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments that the Company could be required to make under the bylaws is unlimited; however, the Company has Director and Officer insurance policies that, in most cases, would limit its exposure and enable it to recover a portion of any future amounts paid. The officer and director indemnification provisions were grandfathered under the provisions of FIN 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded for these provisions as of December 31, 2003.

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, typically with business partners, licensors and clinical sites. Under these

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

9. Commitments and Contingencies (Continued)

provisions, the Company generally indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of its activities. Certain indemnification provisions survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. However, to date the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2003.

Litigation

PharmaStem Therapeutics, Inc. filed a complaint on February 22, 2002 and an amended complaint on March 25, 2002, against the Company and seven other defendants in the United States District Court for the District of Delaware, alleging infringement of US Patents No. 5,004,681 and No. 5,192,553, which relate to certain aspects of the collection, cryopreservation and storage of hematopoietic stem cells and progenitor cells from umbilical cord blood. The Company counterclaimed that the patents are invalid and for violation of the antitrust laws resulting from patent misuse and sought a declaration of non-infringement.

In October 2003, the jury ruled against the Company and the other defendants, and a judgment was entered against the Company for approximately \$2,900,000, based on 6.125% royalties on its revenue from the storage of umbilical cord blood since April 2000. The jury also found that the infringement was willful. The Company has placed the amount of the award in an escrow account pending final disposition of this case. This amount is included in other current assets. The Company has also recorded an accrued liability for the amount of the award and an additional \$361,000 related to revenues from October 2003 through December 31, 2003.

The Company is seeking to have the verdict overturned as contrary to the evidence presented at trial. It has also asked the trial judge to award it certain equitable relief, including the right to continue to conduct its business. PharmaStem is seeking an injunction against the Company and the other defendants, prejudgment and postjudgment interest, as well as enhanced damages based upon the jury's finding of willful infringement, and attorney's fees. If its challenge to the verdict before the trial judge is unsuccessful, the Company intends to appeal. If the verdict is upheld by the trial judge and/or on appeal, and the Company is not able to obtain a license under the disputed patents or operate under the intervening rights doctrine, it may be required to stop preserving and storing cord blood and to cease using cryopreserved umbilical cord blood as a source for stem cell products. If PharmaStem is successful on its motion for enhanced damages, the jury's award may potentially be increased up to three times the amount of the \$2.9 million award. It is possible that the final outcome of this litigation could result in a reduction in, or the elimination of, royalties payable regarding this patent claim and the reversal of the \$2.9 million award. Conversely, it is possible that the royalty rate could be increased or additional damages could be awarded.

Litigation is subject to many uncertainties and possible outcomes. Although it is impossible to predict the final outcome, the Company has substantive defenses to all of PharmaStem's claims, and it intends to continue conducting a vigorous defense. It is possible that the results of operations or cash flows of the Company in a particular period could be materially affected by the ultimate outcome of this litigation, however the Company believes that there is not a significant possibility that the Company would be required to pay any damages beyond the amount presumed by the jury award.

Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****9. Commitments and Contingencies (Continued)**

The Company periodically becomes subject to legal proceedings and claims arising in connection with its business. With the exception of the PharmaStem complaint noted above, the Company does not believe that there were any asserted claims against it as of December 31, 2003 which, if adversely decided, would have a material adverse effect on results of operations, financial position or cash flow.

10. Redeemable Convertible Preferred Stock, Convertible Preferred Stock and Stockholders Deficit

The Company's redeemable convertible preferred stock is accreted to redemption value through the redemption date and consists of the following as of December 31, 2001, 2002 and 2003, respectively:

| | Carrying Value at December 31, | | |
|--|--------------------------------|-----------------------|-----------------------|
| | 2001 | 2002 | 2003 |
| Series C, \$0.01 par value | | | |
| Authorized, issued and outstanding; 919,220 shares | \$ 1,242,271 | \$ 1,360,997 | \$ 1,469,871 |
| Series D, \$0.01 par value | | | |
| Authorized, issued and outstanding; 1,500,000 shares | 3,040,740 | 3,331,349 | 3,597,857 |
| Series E, \$0.01 par value | | | |
| Authorized, issued and outstanding; 1,983,334 shares | 7,268,522 | 7,863,277 | 8,492,339 |
| Series F, \$0.01 par value | | | |
| Authorized, issued and outstanding; 2,666,666 shares | 9,146,877 | 9,844,462 | 10,660,819 |
| Series G, \$0.01 par value | | | |
| Authorized, issued and outstanding; 3,666,667 shares | 12,576,961 | 13,572,807 | 14,658,631 |
| Series H, \$0.01 par value | | | |
| Authorized, issued and outstanding; 7,577,334 shares | 52,829,978 | 56,949,345 | 61,515,916 |
| Series I, \$0.01 par value | | | |
| Authorized, 5,575,000 shares; issued and outstanding; 1,875,000, 2,062,500 and 2,624,854 shares at December 31, 2001, 2002 and 2003, respectively | 15,162,722 | 17,989,440 | 24,074,390 |
| Series J, \$0.01 par value | | | |
| Authorized, 3,750,000 shares; issued and outstanding; 2,190,000 shares at December 31, 2003 | | | 16,073,828 |
| Series K, \$0.01 par value | | | |
| Authorized, issued and outstanding; 2,500,000 shares at December 31, 2003 | | | 21,597,786 |
| Total redeemable convertible preferred stock | \$ 101,268,071 | \$ 110,911,677 | \$ 162,141,437 |



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Table of Contents**ViaCell, Inc.****Notes to Consolidated Financial Statements****December 31, 2001, 2002 and 2003 (Continued)****10. Redeemable Convertible Preferred Stock, Convertible Preferred Stock and Stockholders Deficit (Continued)**

The Company's convertible preferred stock consists of the following as of December 31, 2002 and 2003, respectively:

| | <u>2002</u> | <u>2003</u> |
|---|-----------------|-----------------|
| Series A, \$0.01 par value | | |
| Authorized, issued and outstanding 100,000 shares (liquidation preference of \$100,000 at December 31, 2002 and 2003) | \$ 1,000 | \$ 1,000 |
| Series B, \$0.01 par value | | |
| Authorized, issued and outstanding 82,857 shares (liquidation preference of \$145,000 at December 31, 2002 and 2003) | 829 | 829 |
| Total convertible preferred stock | \$ 1,829 | \$ 1,829 |

The Company's Board of Directors has authorized 30,825,000 shares of \$0.01 par value preferred stock.

On June 1, 1999, the Company issued 1,983,334 shares of its Series E convertible preferred stock at \$3.00 per share for total gross proceeds to the Company of approximately \$5,950,000. In connection with the sale, the Company issued warrants to investors to purchase up to 100,000 shares of the Company's common stock at an exercise price of \$1.50 per share.

In connection with the April 2000 merger with Viacord, the Company authorized and issued 2,666,666 shares of \$0.01 par value Series F convertible preferred stock. Upon closing, the Company also issued 3,666,667 shares of \$0.01 par value Series G convertible preferred stock at \$3.00 per share to three venture capital investors in exchange for a total of \$11,000,000.

On November 10, 2000, the Company issued 7,577,334 shares of Series H convertible preferred stock at \$6.38 per share and received proceeds of approximately \$48,200,000, net of \$120,000 of financing costs.

On October 25, 2001, the Company issued 1,875,000 shares of Series I convertible preferred stock for gross proceeds of approximately \$15,000,000, excluding \$79,000 of issuance costs. In addition, the Company may sell and issue an additional 375,000 shares of Series I stock for \$8 per share pursuant to an option agreement dated October 25, 2001.

In January 2002, the Company issued 187,500 shares of Series I preferred stock for an aggregate price of \$1,500,000 upon the exercise of an option. In connection with this exercise, the option holder and the Company mutually agreed to terminate the remaining portion of the option.

In connection with the September 2003 acquisition of Kourion, the Company issued 549,854 shares of \$0.01 par Series I convertible preferred stock. The Company determined the fair value of the Series I preferred stock to be \$8.00 per share. The Company also issued 241,481 shares to an escrow account. These shares will be released as the earlier of a change in control of the company or an underwritten public offering of its common stock at a price per share of at least \$9.70 resulting in net proceeds of at least \$50 million. If neither event occurs prior to September 30, 2006, the escrow shares will revert back to the Company.

In September 2003 and October 2003, the Company issued 2,190,000 of its Series J convertible preferred stock for total gross proceeds to the Company of \$17,520,000. The Company incurred approximately \$505,000 of issuance costs related to the Series J offering. The fair value of the Company's Series J convertible preferred stock was determined to be \$8.57 per share. A right to contingent warrants

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

10. Redeemable Convertible Preferred Stock, Convertible Preferred Stock and Stockholders Deficit (Continued)

was granted to all purchasers of Series J preferred stock. Upon the earlier to occur of an initial public offering that is not a Qualified Public Offering (an initial public offering at a minimum price of \$9.70 per share in which net proceeds equal or exceed \$50 million) or the three year anniversary of the Initial Closing (September 30, 2006), the Company will issue warrants to the holders of Series J preferred stock for the purchase of Common Stock equal to the number of shares owned of Series J (2,190,000 shares). The initial warrant purchase price will be \$5.00. The warrant price and number of shares purchasable will be adjustable from time to time based on specific criteria to prevent dilution. The right to the contingent warrants had a fair value of approximately \$1,620,000 at the time of grant. The fair value was estimated using a binomial valuation model. The Company recorded the Series J convertible preferred stock and the contingent warrants, at their relative fair values of \$15,622,000 and \$1,390,000, respectively.

In December 2003, in connection with the license and collaboration agreement described in Note 9, the Company issued 2,500,000 of its Series K convertible preferred stock to Amgen at \$8.00 per share for total gross proceeds to the Company of \$20,000,000 and incurred issuance costs of approximately \$127,000. The Company recorded this preferred stock at its determined fair value of \$8.69 per share. The excess of the fair value of the Series I preferred stock over the gross proceeds of \$1,725,000 was allocated to the technology license and was charged to expense as in-process technology.

In connection with the shares of Series K convertible preferred stock issued to Amgen and the current PharmaStem litigation, the Company has a side agreement under which Amgen has a one-time option to require the Company to redeem up to 1,250,000 of its Series K shares at a price of \$8.00 per share. This option is triggered upon the occurrence of the earliest of June 23, 2007, a settlement or final judgment against the Company for a total amount exceeding \$30 million (including the initial judgement amount as well as certain royalties, if any, that the Company becomes obligated to pay PharmaStem), or an injunction enjoining the Company's cord blood preservation operations that has not been stayed or vacated. This option expires upon the earliest of the second anniversary of the triggering event, a settlement or final judgment against the Company for a total amount less than or equal to \$30 million (provided that an injunction is not currently in effect at the time), or a public offering of the Company's common stock in which all outstanding shares of convertible preferred stock of the Company automatically convert into common stock.

The rights and privileges of Series A, B, C, D, E, F, G, H, I, J and K convertible preferred stock are as follows:

Dividends

The holders of Series H, I, J and K convertible preferred stock are entitled to receive cumulative dividends at a rate of 8 percent per year if, when and as declared by the Company's Board of Directors or upon liquidation, dissolution, or winding-up of the corporation before any dividends can be paid to the common stockholders or any other preferred stock holder.

The holders of Series C, D, E, F and G convertible preferred stock are entitled to receive cumulative dividends declared at a rate of 8 percent per year if, when and as declared by the Company's Board of Directors or upon redemption, dissolution, or winding-up of the corporation before any dividends can be paid to the common stockholders.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

**10. Redeemable Convertible Preferred Stock, Convertible Preferred Stock and Stockholders Deficit (Continued)
Liquidation, Distribution, or Winding-Up**

In the event of voluntary or involuntary liquidation, dissolution, or winding-up, the holders of Series A, B, C, D, E, F, G, H, I, J and K convertible preferred stock are entitled to be paid out of the assets available for distribution, in preference to holders of common stock, the greater of (i) an amount equal to \$1.00, \$1.75, \$1.00, \$1.50, \$3.00, \$3.00, \$3.00, \$6.38, \$8.00, \$8.00 and \$8.00 per share, respectively, plus any unpaid dividends declared or (ii) amount per share as would have been payable had each share been convertible into common stock immediately prior to such liquidation, dissolution or winding-up, plus any dividends declared or accrued but unpaid on such common stock. If assets of the Company available for distribution are insufficient for payment, the holders of Series H, I, J and K convertible preferred stock shall be paid first, with Series K holders being fully paid first, the Series J holders being fully paid second, and Series H and I holders being fully paid third. After payment is made in full to the holders of Series H, I, J and K, the holders of Series C, D, E, F and G shall share in distribution ratably in proportion to their aggregate liquidation preference amounts. Remaining funds will be distributed to the Series A and B preferred stockholders before distribution is made to common stockholders.

Voting Rights

Each holder of preferred stock is entitled to the number of votes equal to the number of common stock shares into which such holder's shares of preferred stock are then convertible.

Conversion

All shares of preferred stock are convertible at the option of the holder into common stock on a one-for-one basis, adjustable for certain dilutive events, as defined in the Company's Certificate of Incorporation. All outstanding shares of preferred stock will automatically be converted into common stock upon the closing of the sale of shares of common stock at a price per share of at least \$9.70 in a public offering in which the Company receives aggregate gross proceeds of at least \$50,000,000.

Redemption

At the written request of at least 60 percent of the then outstanding shares of Series C, D, E, F, G, H, I, J and K convertible preferred stock made any time on or after November 26, 2007, the Company will redeem each then outstanding share of Series C, D, E, F, G, H, I, J and K convertible preferred stock for an amount equal to the original issue price plus all accumulated and unpaid dividends accrued with respect to each such share since the original issue date of the share. If the funds of the Company available for redemption are insufficient to redeem the total number of shares, the holders of Series H, I, J and K convertible preferred stock shall be paid first; thereafter, the holders of the Series C, D, E, F, and G convertible preferred stock shall share ratably according to the respective amounts they would have been paid.

Common Stock

As of December 31, 2003, the Company has authorized 80,000,000 shares of common stock with a \$0.01 par value each. Each holder of a share of common stock is entitled to one vote for each share held at all meetings of stockholders.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

11. Warrants

In November 1997, in connection with the issuance of Series D preferred stock, the Company issued warrants to certain stockholders to purchase 750,000 shares of the Company's common stock at a price per share of \$1.50. These warrants vested 100 percent on the date of grant and are exercisable through November 12, 2007. The value ascribed to these warrants was not material.

In May 1999, in connection with the issuance of Series E preferred stock, the Company issued a warrant to a shareholder to purchase 100,000 shares of the Company's common stock at a price per share of \$1.50. The warrant vested 100 percent on the date of grant and is exercisable through May 21, 2009. The value ascribed to this warrant was not material.

In February 2000, the Company issued a warrant to purchase 13,333 shares of the Company's common stock at an exercise price of \$3.00 per share to a landlord. The warrant vested 100 percent on the date of grant and is exercisable through February 24, 2010. The value ascribed to this warrant was not material.

In April 2002, the Company entered into a license agreement with Amgen Inc. for the nonexclusive license to patent rights covering Amgen's Stem Cell Factor. This agreement was superseded by a license and collaboration agreement entered into by the parties in December 2003. In connection with this agreement, the Company issued a warrant to purchase 560,000 shares of its common stock at an exercise price of \$12 per share. The warrant vested on October 9, 2002 and is exercisable in whole or in part at any time prior to April 9, 2009. The warrant had a fair value of approximately \$5,888,000 at the date of issuance. The fair value of this warrant was estimated at the time of issuance using the Black-Scholes pricing model and assuming a dividend yield of 0 percent, expected volatility of 110 percent, risk-free rate of 4.6 percent and a contractual term of seven years. The Stem Cell Factor technology licensed from Amgen, which is being used in the production process for CB001, our lead product candidate, had not yet achieved technological feasibility and had no alternative future at that time, therefore the Company charged the purchase price of \$5,888,000 to in-process technology expense.

As described in Note 10, the Company issued rights to contingent warrants in September and October 2003.

In October 2003, the Company also issued a warrant in connection with debt financing for the purchase of 18,750 shares of Series J preferred stock with an exercise price of \$8.00 per share with a life of 10 years. The Company valued the warrant under a Black-Scholes model deriving a fair market value of approximately \$57,000. The fair value of the warrants issued in September and October 2003 was estimated at the time of issuance using the Black-Scholes pricing model and assuming a dividend yield of 8%, expected volatility of 100%, risk-free rate of 2% and a contractual term of 10 years. The warrant is being amortized under the effective interest method over the term of the related note (Note 8).

12. Stock Option Plan

The ViaCell, Inc. Amended and Restated 1998 Equity Incentive Plan (the Plan), which was adopted on February 12, 1998, provides for the granting of incentive and nonqualified stock options to purchase an aggregate of 4,000,000 shares of common stock to employees, consultants and directors of the Company. In January 2002, the Board of Directors increased the number of shares of common stock available for issuance under the Plan to 5,000,000, and in 2003 the Board of Directors increased the pool to 6,000,000. Incentive stock options may only be granted to employees of the Company. The exercise price of each option is determined by the Board of Directors. The exercise price of each incentive stock

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ViaCell, Inc.

Notes to Consolidated Financial Statements**December 31, 2001, 2002 and 2003 (Continued)****12. Stock Option Plan (Continued)**

option, however, may not be less than the fair market value of the stock on the date of grant, as determined by the Board of Directors.

Options granted under the Plan vest over a period of four years and expire ten years from the grant date. At December 31, 2003, there were 801,127 shares available for future grant under the Plan.

Information with respect to option activity is as follows:

| | Number of Options Authorized | Number of Options Outstanding | Exercise Price | Aggregate Exercise Price | Weighted Average Exercise Price |
|--------------------------------|------------------------------------|-------------------------------------|-------------------|-----------------------------|--|
| Outstanding, December 31, 2000 | 4,000,000 | 2,073,950 | \$0.10-0.30 | \$ 621,773 | \$0.30 |
| Granted | | 1,920,888 | 0.30-2.00 | 2,637,568 | 1.37 |
| Exercised | | (289,395) | 0.15-0.78 | (91,815) | 0.32 |
| Canceled | | (144,435) | 0.15-0.95 | (100,632) | 0.69 |
| Outstanding, December 31, 2001 | 4,000,000 | 3,561,008 | 0.10-2.00 | 3,066,894 | 0.86 |
| Authorized | 1,000,000 | | | | |
| Granted | | 1,383,468 | 2.00-5.00 | 5,407,790 | 3.91 |
| Exercised | | (102,362) | 0.10-2.00 | (31,343) | 0.31 |
| Canceled | | (466,362) | 0.30-5.00 | (816,272) | 1.75 |
| Outstanding, December 31, 2002 | 5,000,000 | 4,375,752 | 0.10-5.00 | 7,627,069 | 1.74 |
| Authorized | 1,000,000 | | | | |
| Granted | | 713,436 | 5.00 | 3,567,180 | 5.00 |
| Exercised | | (101,280) | 0.15-5.00 | (54,009) | 0.53 |
| Canceled | | (282,572) | 0.30-5.00 | (1,096,129) | 3.88 |
| Outstanding, December 31, 2003 | 6,000,000 | 4,705,336 | \$0.10-5.00 | \$ 10,044,111 | \$2.13 |
| Exercisable, December 31, 2001 | | 667,426 | \$0.10-0.95 | \$ 204,880 | \$0.34 |
| Exercisable, December 31, 2002 | | 1,233,069 | \$0.15-5.00 | \$ 719,246 | \$0.58 |
| Exercisable, December 31, 2003 | | 1,806,628 | \$0.30-5.00 | \$ 1,784,266 | \$0.99 |

Options Outstanding at December 31, 2003**Options Exercisable at
December 31, 2003**

| Exercise Price | Number of Shares | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
|-------------------|---------------------|---|------------------------------------|---------------------|------------------------------------|
|-------------------|---------------------|---|------------------------------------|---------------------|------------------------------------|

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| | | | | | |
|--------|------------------|-------------|---------------|------------------|---------------|
| \$0.30 | 1,517,125 | 6.53 | \$0.30 | 1,039,562 | \$0.30 |
| 0.75 | 63,205 | 7.09 | 0.75 | 33,467 | 0.75 |
| 0.95 | 782,153 | 7.54 | 0.95 | 465,582 | 0.95 |
| 2.00 | 936,126 | 8.02 | 2.00 | 98,923 | 2.00 |
| 4.00 | 120,850 | 8.22 | 4.00 | 38,335 | 4.00 |
| 5.00 | 1,285,877 | 9.23 | 5.00 | 130,759 | 5.00 |
| | <u>4,705,336</u> | <u>7.78</u> | <u>\$2.13</u> | <u>1,806,628</u> | <u>\$0.99</u> |

The weighted average fair value of options granted in 2001, 2002 and 2003 was \$6.15, \$6.31 and \$6.18, respectively.

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ViaCell, Inc.

Notes to Consolidated Financial Statements

December 31, 2001, 2002 and 2003 (Continued)

12. Stock Option Plan (Continued)

In October 2001, ViaCell granted a shareholder, Genzyme, an option, issued outside the Plan, to acquire up to an aggregate of \$3,000,000 of shares of Series I preferred stock or such other series of preferred stock most recently issued by the Company at the time of exercise of the option. One half of the option was exercisable at any time after issuance of the option but prior to its expiration. This portion of the option had a fair value of \$594,000 and was recorded as an in-process technology expense in the accompanying consolidated statement of operations. The fair value of this option was estimated at the time of issuance using the Black-Scholes option pricing model and assuming a dividend yield of 8 percent, expected volatility of 110 percent and a risk-free interest rate of 4.71 percent. One half of the option becomes exercisable upon achievement of certain milestones. During 2002, this shareholder exercised the vested portion of this option and purchased 187,500 shares of Series I preferred stock. Concurrently, both the Company and the option holder mutually agreed to terminate the remaining unvested portion of the option.

13. Employee Benefit Plan

The Company maintains a qualified 401(k) retirement savings plan (the 401(k) Plan) covering all employees. Under the 401(k) Plan, the participants may elect to defer a portion of their compensation, subject to certain limitations. Company matching contributions may be made at the discretion of the Board of Directors. There have been no discretionary contributions made by the Company to the 401(k) Plan to date.

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Report of Independent Auditors

To the Board of Management and Shareholders of Kourion Therapeutics AG

In our opinion, the accompanying balance sheets and the related statements of income present fairly, in all material respects, the financial position of Kourion Therapeutics AG at September 30, 2003 and December 31, 2002 and the results of its operations for the nine months ended September 30, 2003 and for the year ended December 31, 2002, in conformity with accounting principles generally accepted in Germany. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the item "general information" in the notes to the financial statements, the ability of the company to continue as a going concern is subject to certain risk conditions.

Accounting principles generally accepted in Germany vary in certain important respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for the nine-month ended September 30, 2003 and for the year ended December 31, 2002 and the determination of shareholders' equity at September 30, 2003 and December 31, 2002 to the extent summarized in item "other information" in the notes to the financial statements.

/s/ PricewaterhouseCoopers GmbH

/s/ (Schwalm)
Wirtschaftsprüfer

/s/ (Bröcher)
Wirtschaftsprüfer

Düsseldorf, March 10, 2004

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Table of Contents**Kourion Therapeutics AG, Langenfeld****Balance Sheet as of**

| | <u>September 30, 2003</u> | <u>December 31, 2002</u> |
|--|---------------------------|--------------------------|
| Assets | | |
| A. Fixed assets | | |
| I. Intangible assets | | |
| Concessions, industrial property rights | 10,335 | 14,508 |
| II. Tangible assets | | |
| 1. Buildings on leasehold land | 0 | 14,084 |
| 2. Other equipment, factory and office equipment | 1,462,550 | 356,618 |
| 3. Prepayments and construction in process | 48,469 | |
| | <u>1,511,019</u> | <u>370,702</u> |
| | <u>1,521,354</u> | <u>385,210</u> |
| B. Current assets | | |
| I. Inventories | | |
| 1. Raw materials and supplies | 80,226 | 37,359 |
| 2. Prepayments | 660 | |
| | <u>80,886</u> | <u>37,359</u> |
| II. Receivables and other assets | | |
| 1. Trade receivables | 1,202 | |
| 2. Receivables from affiliated companies | 876,526 | |
| 3. Other assets | 800,609 | 686,179 |
| | <u>1,678,337</u> | <u>686,179</u> |
| III. Current asset securities | | |
| Other securities | 2,047,645 | 2,351,943 |
| IV. Cash on hand and bank balances | | |
| | <u>2,003,719</u> | <u>5,066,037</u> |
| | <u>5,810,587</u> | <u>8,141,518</u> |
| C. Prepaid expenses and deferred charges | | |
| | <u>155,687</u> | <u>5,969</u> |
| | <u>7,487,628</u> | <u>8,532,697</u> |
| Shareholders' equity and liabilities | | |
| A. Shareholders' equity | | |
| I. Subscribed capital | 52,750 | 52,750 |
| II. Capital reserve | 12,077,182 | 12,077,182 |
| III. Cumulative losses | (6,349,829) | (4,536,516) |
| | <u>5,780,103</u> | <u>7,593,416</u> |
| B. Special account for subsidies and grants | | |
| | <u>428,592</u> | <u>133,087</u> |

| | | |
|--|-----------|-----------|
| C. Accruals | | |
| Other accruals | 469,819 | 280,965 |
| D. Accounts payable | | |
| 1. Bank loans and overdrafts | 212 | 121 |
| 2. Trade payables | 645,568 | 460,438 |
| 3. Payables to shareholders | 0 | 443 |
| 4. Other liabilities | 163,334 | 63,520 |
| (of which taxes 138,392.55; previous year 39,471.21) | | |
| (of which social security payables 24,497.79; previous year 24,049.12) | 809,114 | 524,522 |
| E. Deferred income | | |
| | | 707 |
| | 7,487,628 | 8,532,697 |

Table of Contents**Kourion Therapeutics AG, Langenfeld****Income Statement for the Period**

from January 1 through September 30, 2003
(Comparative Period from January 1 through December 31, 2002)

| | <u>January 1 through September 30, 2003</u> | <u>2002</u> |
|--|---|--------------------|
| 1. Sales | 16,722 | 0 |
| 2. Other operating income | 768,910 | 1,177,465 |
| 3. Cost of materials | | |
| a) Cost of raw materials and supplies | 170,958 | 233,986 |
| b) Cost of purchased services | 137,747 | 461,120 |
| | <u>308,705</u> | <u>695,106</u> |
| 4. Personnel expenses | | |
| a) Wages and salaries | 877,979 | 1,400,239 |
| b) Social security, pension and other benefits (of which relating to pensions 0.00; previous year 59,170 41) | 128,919 | 219,513 |
| | <u>1,006,898</u> | <u>1,619,752</u> |
| 5. Amortisation of intangible assets and depreciation of tangible assets | 110,439 | 72,963 |
| 6. Other operating expenses | 1,230,560 | 1,533,796 |
| 7. Other interest and similar income | 58,743 | 251,373 |
| 8. Write-down of current asset securities | | 153,357 |
| 9. Interest and similar expenses | 1,148 | 15 |
| | <u>(1,813,375)</u> | <u>(2,646,151)</u> |
| 10. Net operating loss | | |
| 11. Other taxes (income; previous year charge) | (62) | 123 |
| | <u>(1,813,313)</u> | <u>(2,646,274)</u> |
| 12. Net loss for the year | | |
| 13. Cumulative losses brought forward | 4,536,516 | 1,890,242 |
| 14. Cumulative losses | <u>(6,349,829)</u> | <u>(4,536,516)</u> |

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Kourion Therapeutics AG, Langenfeld

Notes to the Financial Statements as of September 30, 2003

I. General information

The annual financial statements of Kourion Therapeutics AG (Kourion) were prepared in accordance with the regulations of the German commercial law (HGB). Furthermore, the regulations of the German stock corporation act (AktG) were also complied with.

The income statement is presented in the type of expenses form.

Following the sale of the shares in our company as of September 30, 2003, ViaCell Inc., Boston, Massachusetts/ USA (ViaCell) is our company's new sole shareholder. In view of the fact that our financial statements are included in the consolidated financial statements of ViaCell Inc., it is necessary that our financial statements as of September 30, 2003, which were prepared in accordance with German accounting principles, include information about the reconciliation to accounting principles generally accepted in the United States of America (US-GAAP).

The financial year of Kourion Therapeutics AG is the calendar year. The financial statements as of September 30, 2003 to which these Notes are attached have been prepared voluntarily for the period from January 1 through September 30, 2003.

In so far as we have an option of showing certain information either in the balance sheet or income statement or in the Notes, that information is included in the Notes.

These financial statements have been prepared assuming that Kourion will continue as a going concern. Kourion has incurred losses from operations and negative operating cash flow in the fiscal year ended December 31, 2002 and the nine months ended September 30, 2003. Kourion's existing cash provides the company with sufficient resources to fund operations through April 2005. Thereafter, Kourion will be dependent on additional funding from ViaCell to continue its operations.

II. Accounting and valuation methods

Purchased intangible fixed assets are stated at acquisition costs which have been reduced by systematic amortisation.

Tangible fixed assets are stated at acquisition or production costs less systematic depreciation.

Intangible and tangible assets are being amortised or depreciated on the basis of their expected useful lives and the maximum rates accepted for tax purposes. Fixed assets acquired during the financial year are depreciated pro rata temporis. Moveable assets are depreciated taking advantage of the half-year rule which is possible in accordance with Section R 44 (2) EstR (Income Tax Regulations).

The following estimated useful lives are applied to groups of assets:

| | |
|---|------------|
| Intangible assets | 3 years |
| Technical equipment and machinery | 5-13 years |
| Other equipment, factory and office equipment | 3-13 years |

Inventories are stated at acquisition or production costs. If their values at the balance sheet date are lower, these lower values are used.

Receivables and other assets and current asset securities are valued after taking account of all recognisable risks.

Cash on hand and at banks are stated at their nominal amounts.

Prepaid expenses and deferred charges include payments made which relate to definite periods after the balance sheet date.

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Kourion Therapeutics AG, Langenfeld

Notes to the Financial Statements as of September 30, 2003 (Continued)

Shareholders' equity is stated at its nominal amount.

The Special account for subsidies and grants shows grants received for fixed assets, which have been deferred and are released to income in line with the depreciation provided on the assets concerned. The amounts released are shown under Other operating income in the income statement.

Other accruals have been made for all recognisable uncertain liabilities at amounts based on a prudent businessman's evaluation.

Accounts payable are stated at the amounts payable. Liabilities expressed in foreign currencies have been translated to Euro at rates which were valid at the balance sheet date.

III. Information on items in the balance sheet and income statement

Statement of the development of fixed assets

Details of and movements on fixed assets, which comprise intangible and tangible assets, can be seen in the statement of the development of fixed assets at the end of these Notes. This statement shows amounts of amortisation and depreciation provided in the individual items of fixed assets in the period under review.

Inventories

Inventories (T 81) are goods classified as raw materials and supplies (T 80) and prepayments made (T 1).

Receivables and other assets

Receivables from affiliated companies (T 877) are all receivable from ViaCell Inc., and reflect amounts taken over by ViaCell in place of the sellers in connection with the share transfer transactions and which Kourion paid as advance payments for ViaCell.

Other assets (T 801) are mainly claims for tax refunds (T 422) and for grants to be paid (T 322).

None of the receivables and other assets are due over period in excess of one year.

Current asset securities

Current asset securities (T 2,048) relate exclusively to money-market funds, which invest in short term bonds.

Liquid funds

Liquid funds (T 2,004) include cash on hand (T 0.1) and bank balances (T 2,004).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges (T 156) relate to prepaid insurance premiums, rents and collaboration costs.

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Kourion Therapeutics AG, Langenfeld

Notes to the Financial Statements as of September 30, 2003 (Continued)

Shareholders equity

The share capital of the predecessor company Kourion Therapeutics GmbH amounted to 26,400 as of December 31, 2000. The shareholders passed the following resolutions on June 25, 2001:

The company's share capital will be increased

The company will be transformed into an Aktiengesellschaft (Corporation).

The above changes were entered in the Commercial Register on March 19, 2002.

As of September 30, 2003, the company's share capital amounted to 52,750. It was divided into 29,853 ordinary shares and 22,897 preference shares with voting rights.

Preference shares

There is only one type of preference share Series A. These shares have the following characteristics, in contrast to ordinary shares:

Owners of Series A preference shares have no preference rights to dividends compared to owners of ordinary shares. No dividends had been distributed up to September 30, 2003.

Each preference share owner is entitled to one vote.

The following resolutions passed by the shareholders' general meeting require the approval of the preference shareholders to become valid, and those shareholders must pass special resolutions with majorities of 75% of the preference shareholdings represented when the resolutions are passed:

- a. Transformation as defined in Section 1 Umwandlungsgesetz (Transformation Act)
- b. Sale of 75% or more of the company's assets (based on present values)
- c. Changes in the articles of incorporation
- d. Measures concerning obtaining and reducing capital
- e. Liquidation of the company
- f. Approvals of company-transfer agreements as defined in Section 291 et seq AktG
- g. Incorporation as defined in Section 319 AktG
- h. Election of auditors
- i. Distributions to shareholders, including advance dividends
- j. Creation of types of shares which are preferred or equal to those of Series A preference shares
- k. Withdrawal of shares

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Owners of preference shares have the following preference rights if the company is liquidated:

Liquidation income will be paid to owners of Series A preference shares initially up to an amount of 425,9851 (the issue price (A)) per Series A preference share, plus the dividends which have been resolved but not distributed to owners of Series A preference shares. If the liquidation income is less than the amount mentioned above, that liquidation income will be split between the owners of Series A preference shares in the relationships of their participations to one another.

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Kourion Therapeutics AG, Langenfeld

Notes to the Financial Statements as of September 30, 2003 (Continued)

Each owner of Series A preference shares is entitled to demand after the fifth annual anniversary of the date on which the articles of incorporation were finalised (June 25, 2001), the withdrawal of 25% of the Series A preference shares held by him and, after each year following, of further 25% of the Series A preference shares calculated on the basis of the Series A preference shares held by him on the fifth annual anniversary date. Compensation for the withdrawals will be the issue price (A) per Series A preference share, plus 15% internal interest thereon. The claim for withdrawals referred to above is subject to the limitations stipulated in Section 225 et seq and 237 et seq AktG.

The company's Management Board is authorised to increase the share capital, with the approval of the Supervisory Board, until December 31, 2005, once or several times by up to 5,273 new Series A preference shares showing the owners' names.

Ordinary shares

The company was founded on November 2, 2000 in the course of the purchase of a shelf company from six private individuals (Prof. Peter Wernet, Phil Coelho, Dr. Gesine Kögler, Dr. Johannes Fischer, Friedrich Schake and the Kourion Verwaltungs GmbH) for investments of 800 for 3.2%, twice 2,450 for 9.8%, 1,150 for 4.6%, 2,150 for 8.6% and 16,000 for 64%. The share capital totalled 25,000.

The share capital was increased by 1,400 in December 2000, with a share premium of T 108. The share capital was increased by a further 26,350 in July 2001, with a share premium of T 11,958.

Conditional capital of 4,817 shares for the possible implementation of a scheme whereby employees may acquire company shares was resolved at the shareholders' meeting on May 27, 2002. In addition, conditional capital of 6,223 shares was resolved for the purpose of fulfilling bond conversion rights.

Neither of the programmes had been implemented up to September 30, 2003. The programmes have been rendered superfluous as a result of the transaction with ViaCell.

Special account for subsidies and grants

The company's applications for the promotion of projects out of funds provided by the State of North-Rhine Westfalia were approved. The subsidy paid in 2002 and up to September 30, 2003 enabled the company to finance fixed assets and other expenses qualifying for such support. A Special account for subsidies and grants was set up on the Shareholders' equity and liabilities side of the balance sheet to defer amounts related to fixed assets acquired by the company up to September 30, 2003; this is being released to income in line with the estimated useful lives of the assets concerned, and amounted to T 429 at the balance sheet date.

The amount approved for promotion funds totalled T 4,807, of which T 1,787 had been requested by Kourion, and paid, up to September 30, 2003. Amounts requested and provided until September 30, 2003 are based on applications prepared by the company. These amounts are subject to an audit of the underlying costs and investments as well as the compliance with certain conditions included in the promotion contract. The audit has not been finalized yet.

Accruals

Other accruals (T 470) include mainly amounts for vacation entitlements (T 61), costs related to the merger (T 142) and accruals for advisory services and collaboration agreements.

Table of Contents**Kourion Therapeutics AG, Langenfeld****Notes to the Financial Statements as of September 30, 2003 (Continued)*****Accounts payable***

The main items in the accounts payable (T 809) are trade payables (T 646) and other liabilities (163); there are no liabilities due over periods of more than one year. No securities have been given.

Contingent liabilities and other financial commitments

There are no contingent liabilities, including any related to the provision of guarantees for third party liabilities.

There are the following financial commitments in addition to the liabilities shown in the financial statements:

| | | |
|---|---|-------|
| Commitments from rent contracts | T | 1,380 |
| Commitments from leasing contracts | T | 50 |
| Commitments from consultancy and co-operation contracts | T | 418 |
| Commitments for orders placed | T | 45 |
| Commitments from insurance contracts | T | 23 |

Other financial commitments becoming due within one year of the balance sheet date amount to T 425, those becoming due within five years total T 225.

The rent and leasing contracts end between 2004 and 2012. The consultancy and co-operation contracts cover periods of up to eight years.

Sales

Sales (T 17) relate to stem cells sold to a research institute in Switzerland.

Other operating income

Other operating income (T 769) includes mainly investment grants (T 545), credits for releases of accruals (T 101) and other operating income (T 94).

Cost of materials

Cost of materials (T 309) include costs of raw materials and supplies (T 171) and costs of purchased services (T 138).

Personnel expenses

Personnel expenses (1,007) include T 852 for wages and salaries and T 129 for social charges. They also include T 26 for additions to accruals.

The average number of employees in the period from January 1 to September 30, 2003 was 21 (20 in the year 2002).

Other operating expenses

Other operating expenses (T 1,231) include mainly consultancy expenses (T 409), travelling expenses (T 152) and rent payments (T 156).

Table of Contents**Kourion Therapeutics AG, Langenfeld****Notes to the Financial Statements as of September 30, 2003 (Continued)****Financial results**

The net income from financial activities (T 58) comprises T 59 income from current asset securities less interest expenses of T 1.

Taxes

Other taxes show a refund of car tax (T 62).

Cumulative losses

The cumulative losses are made up of the losses brought forward (T 4,537) and the net loss for the period from January to September 2003 (T 1,813). Plans are that the cumulative losses will be carried forward.

IV. Other information**Reconciliation to accounting principles generally accepted in the United States of America (US GAAP)**

The financial statements of the Company have been prepared in accordance with German GAAP. These principles and practices differ in various respects from US GAAP. The Company currently has devoted substantially all of its efforts to research and development activities and has not derived significant revenues from operating activities.

1) Reconciliation of net loss and shareholders' equity

The effects of the application of US GAAP to net income and shareholders' equity are set out in the reconciliations below:

| | Nine Months Ended September 30, 2003 | Year Ended December 31, 2002 |
|--|---|---|
| | (Euro) | (Euro) |
| Net loss under German GAAP | (1,813,313) | (2,646,274) |
| (a) R&D supplies | (42,867) | (6,453) |
| (b) Capital leases | (3,365) | (2,769) |
| (c) Pension obligations | | 16,563 |
| Net loss as adjusted for US GAAP | (1,859,545) | (2,638,933) |
| Shareholders' equity under German GAAP | 5,780,103 | 7,593,416 |
| (a) R&D supplies | (80,226) | (37,359) |
| (b) Capital leases | (4,649) | (1,284) |
| Shareholders' equity as adjusted for US GAAP | 5,695,228 | 7,554,773 |

a) Research and development supplies:

Under German GAAP, research and development costs are expensed when incurred and related supplies are expensed when used. Under US GAAP, SFAS No. 2, Accounting for Research and Development Costs, the costs of materials, equipment, or facilities that are acquired or

constructed for a particular research and development project and that have no alternative future uses (in other research and

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Kourion Therapeutics AG, Langenfeld

Notes to the Financial Statements as of September 30, 2003 (Continued)

development projects or otherwise) and therefore no separate economic values are research and development costs at the time the costs are incurred. The Company has elected to expense diminutive items as incurred for US GAAP reporting that are capitalized as inventories under German GAAP.

b) Capital leases

Under German GAAP, the commercial code does not make any explicit provisions for leasing arrangements. Leases are accounted for in accordance with German tax legislation, which in practice generally results in leased assets being capitalized by the lessor. Under US GAAP, SFAS No. 13, Accounting for Leases, specifies that if certain criteria are met, leases are classified as either operating or capital leases. Certain leases of the Company that are recorded as operating leases qualify for capital lease accounting under US GAAP. The adjustment represents the difference between expenses recorded under capital leases compared to those recorded under operating leases.

c) Provisions for pensions and similar obligations

Under German GAAP, pension liabilities are often calculated by the differential method in accordance with German tax legislation (Section 6A of the German Income Tax Act) and generally represent the minimum amount that must be recorded in the financial statements. Under US GAAP, pension costs for defined benefit plans are accounted for in accordance with SFAS No. 87, Employers Accounting for Pensions. Differences exist between the valuation methods and treatment of certain costs. The adjustment represents the difference in valuation under US GAAP. The pension plan was discontinued in 2002 and no adjustment in 2003 was required.

2) Cash flow statement

Under German GAAP, a statement of cash flows is not required as part of the basic set of financial statements. Under US GAAP, cash flow statements are presented in accordance with SFAS No. 95, Statement of Cash Flows. SFAS No. 95 requires a classification of cash flows resulting from operating, investing and financing activities.

Under SFAS No. 95, cash and cash equivalents include cash and short-term investments with original maturities of three months or less. Under German GAAP, cash comprises of cash and short-term investments which may include original maturities of more than three months.

Table of Contents**Kourion Therapeutics AG, Langenfeld****Notes to the Financial Statements as of September 30, 2003 (Continued)**

The following presents the cash flow statement in accordance with US GAAP and includes adjustments to reconcile cash and cash equivalents under US GAAP to cash and short-term investments reported under German GAAP. Net loss as presented below is the Company's net loss in accordance with U.S. GAAP.

| | Nine Months Ended September 30, 2003 | Year Ended December 31, 2002 |
|--|---|------------------------------------|
| | () | () |
| Cash flows from operating activities: | | |
| Net loss | (1,859,545) | (2,638,933) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 122,621 | 98,619 |
| Loss on disposal of property and equipment | 12,285 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,202) | |
| Prepaid expenses and other current assets | (256,348) | (482,497) |
| Due from related parties | (876,526) | |
| Restricted cash | (115,600) | |
| Other non-current assets | 1,159 | (5,343) |
| Short-term debt | 212 | |
| Accounts payable and accrued liabilities | 462,908 | 397,236 |
| Pension liability | | (40,094) |
| Net cash used in operating activities | (2,510,035) | (2,671,012) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (946,880) | (16,631) |
| Net cash used in investing activities | (946,880) | (16,631) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of preferred stock | | 8,600,350 |
| Principal payments on capital lease obligation | (25,301) | (22,887) |
| Net cash (used in) provided by financing activities | (25,301) | 8,577,463 |
| Net (decrease) increase in cash and cash equivalents | (3,482,216) | 5,889,820 |
| Cash and cash equivalents at beginning of period | 7,417,980 | 1,528,160 |
| Cash and cash equivalents at end of period | 3,935,764 | 7,417,980 |
| Includes restricted cash not part of cash and cash equivalents under US GAAP | 115,600 | 0 |
| Cash and short-term investments under German GAAP end of year | 4,051,364 | 7,417,980 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | 7,067 | 6,045 |

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Supplemental disclosure of non cash investing and financing activities:

| | | |
|--|-------------------|-------------------|
| Conversion of GmbH share capital into AG common stock | | 29,853 |
| | <u> </u> | <u> </u> |
| Conversion of GmbH share capital into AG preferred stock | | 22,897 |
| | <u> </u> | <u> </u> |

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Kourion Therapeutics AG, Langenfeld

Notes to the Financial Statements as of September 30, 2003 (Continued)

Names of the members of the company's corporate bodies

The members of the Management Board were:

Dr. Hans-Dieter Royer, Düsseldorf, Doctor of Medicine (until February 19, 2003)

Dr. Manfred Zoltbrocki, Frankfurt, Qualified Chemist (until March 8, 2003)

Dr. Stephan Wnendt, Aachen, Qualified Biochemist (since March 6, 2003).

If only one person is appointed as a member of the Management Board this person is authorised to represent the company alone. If several persons are appointed as members of the Management Board, the company is jointly represented by two Management Board members or by one Management Board member together with a Prokurist (a person with limited powers of representation). The Supervisory Board can authorise one or more or all members of the Management Board to represent the company alone. It can authorise Management Board members together or individually to conclude legal transactions at the same time for the company and as representative of a company affiliated with it (as defined in Section 15 AktG), and, in individual cases, both for the company and as a representative of a third party. Management Board member Dr. Stephan Wnendt is authorised to represent the company alone.

The members of the Supervisory Board were as follows:

| | |
|----------------------------------|--|
| Prof. Dr. Peter Wernet, Chairman | Doctor of Medicine, until October 1, 2003 |
| Dr. Ansbert Gädicke | Doctor of Medicine, until October 1, 2003 |
| Dr. Georg Nebgen | Pharmacist, until February 18, 2003 |
| Mr. Phil Coelho | Businessman, until October 1, 2003 |
| Prof. Dr. Detlev Riesner | Dipl. Physicist, until October 1, 2003 |
| Dr. Stefan Röhrborn | Lawyer, until October 1, 2003 |
| Dr. Markus Hosang | Biochemist, from February 20, 2003 until October 1, 2003 |
| Mr. Marc Beer, Chairman | MBA, since October 23, 2003 |
| Mr. Paul Hastings | MBA, since October 23, 2003 |
| Mr. Jan van Heek | MBA, since October 23, 2003 |

Section 10 (1) of the articles of incorporation was amended at an extraordinary general meeting of shareholders on October 23, 2003 so that the Supervisory Board is comprised of three members.

Members of the Supervisory Board received remuneration amounting to T 32 in the period under review, plus remuneration in accordance with consultancy contracts in the amount of T 55.

Management Board members received remuneration of, in total, T 80 in the period under review.

100% shareholder of Kourion Therapeutics AG is ViaCell Inc., 131 Clarendon Street, MA 02116, USA.

Langenfeld, March 9, 2004

The Management Board

/s/

(Dr. Stephan Wnendt)

Table of Contents**Kourion Therapeutics AG, Langenfeld****Notes to the Financial Statements as of September 30, 2003 (Continued)****Development of Fixed Assets in the Period from****January 1 through September 30, 2003**

| | Acquisition costs | | | Cumulative amortisation and depreciation | | | Book values | | | |
|---|--------------------|-----------|-----------|--|--------------------|-----------|-------------|-----------------------|-----------------------|----------------------|
| | January 1, 2003 | Additions | Disposals | September 30, 2003 | January 1, 2003 | Additions | Disposals | September 30, 2003 | September 30, 2003 | December 31, 2002 |
| Intangible assets | | | | | | | | | | |
| Concessions, industrial property rights | 16,691 | | | 16,691 | 2,183 | 4,173 | | 6,356 | 10,335 | 14,508 |
| Tangible assets | | | | | | | | | | |
| Buildings on leasehold land | 18,688 | | 18,688 | | 4,604 | 1,799 | 6,403 | | | 14,084 |
| Other equipment, factory and office equipment | 477,273 | 1,210,399 | | 1,687,673 | 120,656 | 104,467 | | 225,123 | 1,462,550 | 356,618 |
| Prepayments and construction in process | | 48,469 | | 48,469 | | | | | 48,469 | |
| | 495,961 | 1,258,868 | 18,688 | 1,736,142 | 125,260 | 106,266 | 6,403 | 225,123 | 1,511,019 | 370,702 |
| | 512,652 | 1,258,868 | 18,688 | 1,752,833 | 127,443 | 110,439 | 6,403 | 231,479 | 1,521,354 | 385,210 |

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PRO FORMA FINANCIAL DATA

The following unaudited pro forma combined financial statements give effect to the acquisition of Kourion Therapeutics AG (Kourion) by ViaCell, Inc. (ViaCell) that occurred on September 30, 2003 in a transaction which was accounted for as a business combination. The unaudited pro forma combined statements of operations combine the historical consolidated statement of operations of ViaCell for the year ended December 31, 2003 included elsewhere in this prospectus, and Kourion for the nine months ended September 30, 2003, giving effect to the merger as if it occurred on January 1, 2003, reflecting only pro forma adjustments expected to have a continuing impact on the combined results. A pro forma balance sheet is not presented because Kourion is included in ViaCell s consolidated balance sheet at December 31, 2003. The results of operations of Kourion for the nine months ended September 30, 2003 are presented in accordance with accounting principles generally accepted in the United States.

These unaudited pro forma combined financial statement are for informational purposes only. They do not purport to indicate the results that would have actually been obtained had the merger been completed on the assumed date or for the periods presented, or which may be realized in the future. To produce the pro forma financial information, ViaCell allocated the purchase price using its best estimates of fair value, based in part on a valuation that was performed. The unaudited pro forma combined financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements, including the related notes, of ViaCell and Kourion covering these periods, included elsewhere in this prospectus.

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ViaCell, Inc.

Unaudited Pro Forma Combined Statement of Operations

For the Year Ended December 31, 2003

| | Year Ended December 31, 2003 ViaCell | Nine Months Ended September 30, 2003 Kourion(1) | Pro Forma Adjustments | Note Reference | Pro Forma Combined |
|---|---|---|-----------------------------|-------------------|-----------------------|
| Processing and storage revenue | \$ 30,884,201 | \$ | | | \$ 30,884,201 |
| Grant and contract revenue | 995,494 | 625,174 | | | 1,620,668 |
| Total revenues | 31,879,695 | 625,174 | | | 32,504,869 |
| Operating expenses | | | | | |
| Cost of revenues | 10,399,220 | | | | 10,399,220 |
| Research and development | 13,225,957 | 1,511,536 | | | 14,737,493 |
| Sales and marketing | 20,959,187 | | | | 20,959,187 |
| General and administrative | 15,221,356 | 1,249,568 | | | 16,470,924 |
| In-process technology | 23,925,023 | | (22,100,000) | (A) | 1,825,023 |
| Stock-based compensation(1) | 3,232,179 | | | | 3,232,179 |
| Operating expenses | 86,962,922 | 2,761,104 | (22,100,000) | | 67,624,026 |
| Loss from operations | (55,083,227) | (2,135,930) | 22,100,000 | | (35,119,157) |
| Interest income (expense) | | | | | |
| Interest income | 348,476 | (10,864) | | | 337,612 |
| Interest expense | (733,499) | 65,339 | (840,000) | (B) | (1,508,160) |
| Other income | | 13,104 | | | 13,104 |
| Total interest income (expense), net | (385,023) | 67,579 | (840,000) | | (1,157,444) |
| Net loss | (55,468,250) | (2,068,351) | 21,260,000 | | (36,276,601) |
| Accretion on redeemable convertible preferred stock | 9,416,114 | | 263,920 | (C) | 9,680,034 |
| Net loss attributable to common stockholders | \$(64,884,364) | \$(2,068,351) | 20,996,080 | | \$(45,956,635) |
| Net loss per share | | | | | |
| Net loss per common share, basic and diluted | \$ (24.63) | | | | \$ (17.45) |
| Weighted average shares used in basic and diluted net loss per share computation | 2,634,096 | | | | 2,634,096 |
| Pro forma net loss per common share (basic and diluted) | \$ (2.32) | | | | \$ (1.52) |
| Weighted average shares used in pro forma net loss per common share (basic and diluted) computation | 23,865,902 | | | | 23,865,902 |

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- (1) Kourion's financial statements were translated from local currency (the Euro) into a reporting currency (the US dollar) in accordance with FASB 52. Accordingly, the Statement of Operations was translated based on the average rate of exchange for the nine months ended September 30, 2003.
- (A) To reverse the cost of in-process research and development related to the Kourion acquisition.
- (B) To adjust MPM note interest expense to reflect a full year of interest expense.
- (C) To reflect a full year of accretion related to the issued series I preferred shares related to the acquisition.

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Table of Contents**Notes to Unaudited Pro Forma Combined Statement of Operations**

(\$ in thousands, except share amounts)

Note 1. Basis of Presentation and Pro Forma Information

The unaudited pro forma combined statement of operations data contained herein describes the pro forma effect of the acquisition of Kourion by ViaCell that took place on September 30, 2003, as if it occurred on January 1, 2003. The acquisition was completed as of September 30, 2003 and the results of operations of Kourion from October 1, 2003 through December 31, 2003 are included in the ViaCell historical results of operations. Historical results represents the results of operations of Kourion for the nine months ended September 30, 2003, prior to its acquisition by ViaCell.

Note 2. Description of Transaction

On September 30, 2003, ViaCell acquired the outstanding shares of Kourion and accounted for the acquisition as a business combination. Under the terms of the agreement, shareholders of Kourion exchanged all their outstanding shares for a \$14 million note and 549,854 shares of Series I convertible preferred stock of ViaCell. As potential additional consideration, ViaCell issued 241,481 shares of Series I convertible preferred stock to an escrow account and reserved 289,256 shares of Series I convertible preferred stock which are issuable upon completion of ViaCell's IPO. Kourion is a pre-clinical stage biotechnology company developing therapeutic applications of a proprietary stem cell type called unrestricted somatic stem cells. Based on a valuation performed of Kourion and the intangible assets acquired, the purchase price was estimated at \$28,705,000 and is comprised of the following:

| | |
|--------------------------------------|---------------|
| Note issued | \$ 14,000,000 |
| Series I convertible preferred stock | 4,400,000 |
| Acquisition costs | 2,150,000 |
| Contingent consideration | 8,155,000 |
| | \$ 28,705,000 |
| Total purchase price | \$ 28,705,000 |

In addition, ViaCell has agreed to pay Kourion's shareholders up to \$12 million upon achievement of certain development milestones. Pursuant to SFAS No. 141, approximately \$8.2 million of contingent consideration has been included in the determination of the purchase price.

The purchase price has been allocated to the acquired tangible and intangible assets and liabilities based on their estimated fair values as of September 30, 2003 as follows:

| | |
|---|---------------|
| Cash and cash equivalents | \$ 4,563,000 |
| Other current assets, net | 1,125,000 |
| Property and equipment | 1,432,000 |
| Other assets | 139,000 |
| Accounts payable and accrued expenses assumed | (513,000) |
| Capital lease obligation assumed | (141,000) |
| In-process technology expensed | 22,100,000 |
| | \$ 28,705,000 |
| | \$ 28,705,000 |

Kourion is performing studies to test the effect of unrestricted somatic stem cell (USSC) in the transvascular catheter-based application route and in the epicardial syringe-based delivery route in parallel, using swine. Kourion is also performing studies in a critical defect model in the rat to determine suitability of certain combinations of biomaterials with the USSC. Additional studies are being performed using a large model animal (sheep) of bone regeneration. The Company estimates that the development of the Kourion programs through clinical trials to commercial viability would take approximately eight years.

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Notes to Unaudited Pro Forma Combined Statement of Operations (Continued)
(\$ in thousands, except share amounts)

Note 3. Description of Transaction (Continued)

Management assumes responsibility for determining the in-process research and development valuation. The fair value assigned to purchase in-process research and development was estimated by discounting, to present value, the probability-adjusted net cash flows expected to result once the technology has reached technological feasibility. A discount rate of 23% was applied to estimate the present value of the cash flows and is consistent with the overall risks of developing these projects. As of December 31, 2003, the technological feasibility of the projects had not been reached and management believes the assumptions include in the valuation analysis continue to be valid. In the allocation of the purchase price, the concept of alternative future use was considered. The projects under development have no current alternative future uses for the underlying technology in the event the projects are unsuccessful.

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VIACELL

Table of Contents**Part II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, that we will pay in connection with the sale of common stock being registered. All amounts are estimates except the registration fee and the NASD filing fee.

| | Amount |
|--|---------------|
| SEC registration fee | \$ 11,657 |
| NASD Filing Fee | 9,700 |
| Nasdaq National Market listing fee | 100,000 |
| Printing and engraving | 250,000 |
| Legal fees and expenses | 600,000 |
| Blue sky qualification fees and expenses | 5,000 |
| Accounting fees and expenses | 400,000 |
| Transfer agent fees | 5,000 |
| Miscellaneous expenses | 18,643 |
| | <hr/> |
| Total | \$ 1,400,000 |

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that the person is or was a director, officer, employee or agent of the corporation or is or was serving at the corporation's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of expenses, including attorneys' fees but excluding judgments, fines and amounts paid in settlement, actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that a court of competent jurisdiction shall determine that such indemnity is proper.

Article VIII of our amended and restated Certificate of Incorporation provides that we shall, to the extent legally permitted, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he is or was, or has agreed to become, a director or officer of ViaCell, or is or was serving, or has agreed to serve, at our request, as a director, officer, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprises. The indemnification provided for in Article VIII is expressly not exclusive of any other rights to which those seeking indemnification may be entitled under any law, agreement or vote of stockholders or disinterested directors or otherwise, and shall inure to the benefit of the heirs, executors and administrators of such persons.

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Section 145(g) of the Delaware General Corporation Law provides that a corporation shall have the power to purchase and maintain insurance on behalf of its officers, directors, employees and agents, against any liability asserted against and incurred by such persons in any such capacity.

We have obtained insurance covering our directors and officers against losses and insuring ourselves against certain obligations to indemnify our directors and officers.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a corporation may eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. No such provision shall eliminate or limit the liability of a director for any act or omission occurring prior to the date when such provision becomes effective.

Article VII of our amended and restated Certificate of Incorporation provides that, except to the extent that the Delaware General Corporation Law prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty, no director of the company shall be personally liable to the company or its stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

We have sold and issued the following securities in the previous three years:

(a) During 2001, we issued 354,032 shares of common stock to employees, former employees, consultants and directors upon option exercises for an aggregate sale price of \$191,197 and 39,561 shares of common stock to employees and consultants in consideration for services rendered. We also granted options to employees, consultants and directors to purchase 1,913,621 shares of common stock at exercise prices ranging from \$0.75 to \$2.00 per share.

(b) During 2002, we issued 102,362 shares of common stock to employees, former employees, and directors upon option exercises for an aggregate sale price of \$31,343 and 9,702 shares of common stock to employees and consultants in consideration for services rendered. We also granted options to employees, consultants and directors to purchase 923,103 shares of common stock at exercise prices pre share ranging from \$2.00 to \$5.00.

(c) During 2003, we issued 101,280 shares of common stock to employees, former employees, consultants and directors upon option exercises for an aggregate sale price of \$54,009. We also granted options to employees, consultants and directors to purchase 713,436 shares of common stock at an exercise price of \$5.00 per share.

(d) During 2004 up until March 15, 2004, we issued 12,643 shares of common stock to employees, former employees, consultants and directors upon option exercises for an aggregate sale price of \$5,135. We also granted options to employees, consultants and directors to purchase 470,900 shares of common stock at an exercise price of \$5.00 per share.

(e) On June 20, 2001, in our acquisition of Cerebrotec, we granted to former Cerebrotec employees options to purchase 7,267 shares of common stock at an exercise price of \$0.95 per share.

(f) On October 25, 2001, we issued 1,875,000 shares of Series I preferred stock to a group of institutional investors for an aggregate price of \$15 million.

(g) On January 25, 2002, we issued 13,333 shares of common stock to ARE-One Innovation Center Drive, LLC for an aggregate sale price of \$39,999.

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(h) On October 25, 2001 and January 28, 2002, we issued 250,000 and 187,500 shares, respectively, of Series I preferred stock to Genzyme Corporation for an aggregate purchase prices of \$2.0 million and \$1.5 million, respectively. On September 30, 2003, we issued 187,500 shares of Series J preferred stock to Genzyme Corporation for an aggregate sale price of \$1.5 million.

(i) On April 9, 2002, we issued to Amgen Inc., in partial consideration for a grant to us by them of a technology license, a warrant to purchase 560,000 shares our common stock at an exercise price per share of \$12.00.

(j) On March 24, 2003, we issued 12,500 shares of our Series I preferred stock to Glaxo Group Limited and SmithKline Beecham as partial consideration for a grant to us of a technology license.

(k) On October 16, 2003, we issued to General Electric Capital Corporation in connection with a credit facility with G.E. Capital a warrant to purchase 18,750 shares of our Series J preferred stock.

(l) On December 23, 2003, we issued to Amgen Inc. 2,500,000 shares of our Series K preferred stock for a purchase price of \$20 million.

(m) On August 1, 2002, we issued to Grant Bogle upon his being hired as an employee an option to purchase 300,000 shares of our common stock at an exercise price of \$5.00 per share in a private transaction effected in reliance on the exemption from registration under Section 4(2) of the Securities Act of 1933 (the Securities Act) and Rule 506 of Regulation D promulgated thereunder.

(n) On September 30, 2003, we issued 791,335 shares of our Series I preferred stock to former shareholders of Kourion Therapeutics AG as consideration for their sale to us of their shares of that company.

(o) On September 30 and October 10, 2003, we issued an aggregate of 2,190,000 shares of our Series J preferred stock to qualified institutional buyers and institutional investors for an aggregate purchase price of \$17,520,000.

There were no underwriters employed in connection with any of the transactions set forth in this Item 15.

Each option grant and stock issuance described in Items 15(a) through (d) was deemed exempt from registration under the Securities Act under Rule 701 promulgated thereunder, because the security was offered and sold pursuant to either a written compensatory plan or a written contract relating to compensation.

Each issuance described in Items 15(e) through (l) was deemed exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering. The recipients of securities in each transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection to any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about the Registrant or had access to such information.

Each issuance described in Items 15(n) and (o) was deemed exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering and Regulation S under the Securities Act as transactions made outside the United States. The recipients of securities in each transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about the Registrant or had access to such information.

For additional information concerning these equity investment transactions, reference is made to the information contained under the caption Certain Relationships and Related Party Transactions in the form of prospectus included herein.

Table of Contents**ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****(a) Exhibits**

| Exhibit No. | Description of Document |
|----------------|--|
| 1.1* | Form of Underwriting Agreement. |
| 3.1 | Sixth Amended and Restated Certificate of Incorporation, to be effective on completion of this offering. Filed herewith.(1) |
| 3.2 | Amended and Restated By-laws, to be effective on completion of this offering. Filed herewith. |
| 4.1 | Specimen Stock Certificate. Filed herewith. |
| 4.2 | Form of Warrant to purchase Common Stock, together with a list of holders. Previously filed as Exhibit 4.1 to the Registration Statement on Form S-1 (No. 333-81650) (the Previous Registration) of ViaCell, Inc. (ViaCell) and incorporated herein by reference. |
| 4.3 | Warrant issued to Amgen Inc. on April 9, 2002 to purchase 560,000 shares Common Stock. Filed herewith. |
| 4.4 | Warrant issued to General Electric Capital Corporation on October 16, 2003 to purchase 18,750 shares of Series J Preferred Stock. Filed herewith. |
| 4.5 | Fifth Amended and Restated Registration Rights Agreement dated December 23, 2003 by and among ViaCell and the stockholders named therein. Filed herewith. |
| 5.1* | Opinion of Ropes & Gray LLP. |
| 10.1* | Amended and Restated 1998 Equity Incentive Plan.** |
| 10.2* | 2004 Employee Stock Purchase Plan.** |
| 10.3.1 | Letter Agreement dated October 26, 2002 between ViaCell and Jeffrey Sacher.** Filed herewith. |
| 10.3.2 | Early Separation Agreement and Mutual General Release dated January 2, 2004 between ViaCell and Jeffrey Sacher.** Filed herewith. |
| 10.4.1 | Letter Agreement dated July 1, 2002 between ViaCell and Grant Bogle.** Filed herewith. |
| 10.4.2 | Early Separation Agreement and Mutual General Release dated February 18, 2004 between ViaCell and Grant Bogle.** Filed herewith. |
| 10.5 | Letter Agreement dated June 7, 2001 between ViaCell and Chris Adams.** Previously filed as Exhibit 10.4 to the Previous Registration and incorporated herein by reference. |
| 10.6 | Letter Agreement dated May 2, 2000 between ViaCell and Marc Beer.** Previously filed as Exhibit 10.5 to the Previous Registration and incorporated herein by reference. |
| 10.7 | Letter Agreement dated May 14, 2001 between ViaCell and Kurt Gunter.** Previously filed as Exhibit 10.8 to the Previous Registration and incorporated herein by reference. |
| 10.8 | Letter Agreement dated April 11, 2000 between ViaCell and Morey Kraus.** Previously filed as Exhibit 10.10 to the Previous Registration and incorporated herein by reference. |
| 10.9 | Letter Agreement dated September 12, 2003 between ViaCell and Jan van Heek.** Filed herewith. |
| 10.10 | Letter Agreement dated November 4, 2003 between ViaCell and Vaughn M. Kailian.** Filed herewith. |
| 10.11 | Letter Agreement dated December 15, 2002 between ViaCell and Paul Hastings.** Previously filed as Exhibit 10.9 to the Previous Registration and incorporated herein by reference. |
| 10.12 | Letter Agreement dated August 13, 2003 between ViaCell and George Daley.** Filed herewith. |
| 10.13 | Stock Purchase Agreement dated September 30, 2003 by and among ViaCell, Kourion Therapeutics AG and the shareholders of Kourion Therapeutics signatory thereto. Filed herewith. |
| 10.14 | Series J Convertible Preferred Stock Purchase Agreement dated September 30, 2003 by and among ViaCell and the Purchasers named therein. Filed herewith. |
| 10.15.1 | Form of Promissory Note issued by ViaCell to General Electric Capital Corporation. Filed herewith. |

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| Exhibit No. | Description of Document |
|----------------|---|
| 10.15.2 | Master Security Agreement dated October 16, 2003 by and between ViaCell and General Electric Capital Corporation, as amended by an Amendment dated October 16, 2003. Filed herewith. |
| 10.15.3 | Form of Security Deposit Pledge Agreement by and between ViaCell and General Electric Capital Corporation. Filed herewith. |
| 10.16 | Non-Exclusive License Agreement dated January 1, 2003 between ViaCell and SmithKline Beecham Corporation d/b/a GlaxoSmithKline and Glaxo Group Limited. Filed herewith. |
| 10.17 | Co-Development and License Agreement dated July 15, 2003 between ViaCell and Gamete Technology, Inc. Filed herewith. |
| 10.18 | Collaboration Agreement dated December 23, 2003 between ViaCell and Amgen Inc. Filed herewith. |
| 10.19 | License Agreement dated January 18, 2001 between Cerebrotec, Inc., now ViaCell Neuroscience, Inc., and the General Hospital Corporation, d/b/a Massachusetts General Hospital. Filed herewith. |
| 10.20 | License Agreement dated March 15, 2002 between ViaCell Endocrine Science, Inc. and the General Hospital Corporation, d/b/a Massachusetts General Hospital. Filed herewith. |
| 10.21 | License Agreement dated August 1, 2002 between ViaCell and Massachusetts Institute of Technology. Filed herewith. |
| 10.22 | Sublease Agreement dated December 27, 2000 between ViaCell and AIDS Action Committee of Massachusetts, Inc. Previously filed as Exhibit 10.19 to the Previous Registration and incorporated herein by reference. |
| 10.23 | Sublease Agreement dated November 1, 2001 between ViaCell and ARIAD Corporation. Previously filed as Exhibit 10.21 to the Previous Registration and incorporated herein by reference. |
| 10.24 | Lease Agreement dated April 20, 1999 between Viacord, Inc. and Molded Antennas for Telecommunications, Inc. Previously filed as Exhibit 10.20 to the Previous Registration and incorporated herein by reference. |
| 10.25 | Lease Agreement dated April 12, 2002 between Viacord, Inc. and Dugan Financing LLC. Filed herewith. |
| 10.26 | Sublease Agreement dated April 11, 2002 between ViaCell and Advanced Cell Technology, Inc. Filed herewith. |
| 10.27 | Lease Agreement dated March 25, 2002 between ViaCell and Singapore Science Park Limited. Filed herewith. |
| 10.28 | Lease Agreement dated February 24, 2001, as amended May 31, 2001, between ViaCell and ARE-One Innovation Drive, LLC. Previously filed as Exhibit 10.18 to the Previous Registration and incorporated herein by reference. |
| 10.29 | Lease Agreement dated December 22, 2003 between ViaCell and MA-Riverview/245 First Street, LLC. Filed herewith. |
| 10.30 | Summary of Lease Agreement dated October 1, 2002 between Kourion Therapeutics AG and W.H.L. Grundstücksgemeinschaft GbR. Filed herewith. |
| 10.31 | Letter Agreement dated March 11, 2004 between ViaCell and Stephen Dance.** Filed herewith. |
| 21.1 | Subsidiaries of ViaCell. Filed herewith. |
| 23.1 | Consent of PricewaterhouseCoopers LLP. Filed herewith. |
| 23.2 | Consent of PricewaterhouseCoopers GmbH. Filed herewith. |
| 23.3* | Consent of Ropes & Gray LLP. Included in the opinion to be filed by amendment as Exhibit 5.1. |
| 24.1 | Power of Attorney (included on signature page of the Registration Statement) |

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- (1) As proposed to be filed with the Secretary of State of the State of Delaware concurrently with the closing of this offering.

This exhibit has been filed separately with the Commission pursuant to an application for confidential treatment. The confidential portions of this exhibit have been omitted and are marked by an asterisk.

* To be filed by amendment.

** Indicates a management contract or compensatory plan.

(b) Financial Statement Schedules

None.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this Registration Statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, New York on the 5th day of April, 2004.

VIACELL, INC.

By: /s/ MARC D. BEER

Marc D. Beer

Chief Executive Officer, Director

POWER OF ATTORNEY

We, the undersigned directors and officers of ViaCell, Inc. hereby severally constitute and appoint Marc D. Beer and Stephen G. Dance, and each of them, his/her true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution for him/her and in his/her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and any subsequent registration statements pursuant to Rule 462 of the Securities Act of 1933, as amended and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that each of said attorney-in-fact or his/her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
|---------------------------|--|---------------|
| /s/ MARC D. BEER | Chief Executive Officer and Director (Principal Executive Officer) | April 5, 2004 |
| Marc D. Beer | | |
| /s/ STEPHEN G. DANCE | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | April 5, 2004 |
| Stephen G. Dance | | |
| /s/ VAUGHN M. KAILIAN | Director | April 5, 2004 |
| Vaughn M. Kailian | | |
| /s/ GEORGE DALEY | Director | April 5, 2004 |
| George Daley, M.D., Ph.D. | | |
| /s/ ANSBERT GADICKE, M.D. | Director | April 5, 2004 |
| Ansbert Gadicke, M.D. | | |
| /s/ PAUL HASTINGS | Director | April 5, 2004 |
| Paul Hastings | | |

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| Signature | Title | Date |
|--|--------------|---------------|
| /s/ DENISE POLLARD-KNIGHT Denise Pollard-Knight | Director | April 5, 2004 |
| /s/ JAMES TULLIS James Tullis | Director | April 5, 2004 |
| /s/ JAN VAN HEEK Jan van Heek | Director | April 5, 2004 |

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| Exhibit No. | Description of Document |
|--------------------|--|
| 1.1* | Form of Underwriting Agreement. |
| 3.1 | Sixth Amended and Restated Certificate of Incorporation, to be effective on completion of this offering. Filed herewith.(1) |
| 3.2 | Amended and Restated By-laws, to be effective on completion of this offering. Filed herewith. |
| 4.1 | Specimen Stock Certificate. Filed herewith. |
| 4.2 | Form of Warrant to purchase Common Stock, together with a list of holders. Previously filed as Exhibit 4.1 to the Registration Statement on Form S-1 (No. 333-81650) (the Previous Registration) of ViaCell, Inc. (ViaCell) and incorporated herein by reference. |
| 4.3 | Warrant issued to Amgen Inc. on April 9, 2002 to purchase 560,000 shares Common Stock. Filed herewith. |
| 4.4 | Warrant issued to General Electric Capital Corporation on October 16, 2003 to purchase 18,750 shares of Series J Preferred Stock. Filed herewith. |
| 4.5 | Fifth Amended and Restated Registration Rights Agreement dated December 23, 2003 by and among ViaCell and the stockholders named therein. Filed herewith. |
| 5.1* | Opinion of Ropes & Gray LLP. |
| 10.1* | Amended and Restated 1998 Equity Incentive Plan.** |
| 10.2* | 2004 Employee Stock Purchase Plan.** |
| 10.3.1 | Letter Agreement dated October 26, 2002 between ViaCell and Jeffrey Sacher.** Filed herewith. |
| 10.3.2 | Early Separation Agreement and Mutual General Release dated January 2, 2004 between ViaCell and Jeffrey Sacher.** Filed herewith. |
| 10.4.1 | Letter Agreement dated July 1, 2002 between ViaCell and Grant Bogle.** Filed herewith. |
| 10.4.2 | Early Separation Agreement and Mutual General Release dated February 18, 2004 between ViaCell and Grant Bogle.** Filed herewith. |
| 10.5 | Letter Agreement dated June 7, 2001 between ViaCell and Chris Adams.** Previously filed as Exhibit 10.4 to the Previous Registration and incorporated herein by reference. |
| 10.6 | Letter Agreement dated May 2, 2000 between ViaCell and Marc Beer.** Previously filed as Exhibit 10.5 to the Previous Registration and incorporated herein by reference. |
| 10.7 | Letter Agreement dated May 14, 2001 between ViaCell and Kurt Gunter.** Previously filed as Exhibit 10.8 to the Previous Registration and incorporated herein by reference. |
| 10.8 | Letter Agreement dated April 11, 2000 between ViaCell and Morey Kraus.** Previously filed as Exhibit 10.10 to the Previous Registration and incorporated herein by reference. |
| 10.9 | Letter Agreement dated September 12, 2003 between ViaCell and Jan van Heek.** Filed herewith. |
| 10.10 | Letter Agreement dated November 4, 2003 between ViaCell and Vaughn M. Kailian.** Filed herewith. |
| 10.11 | Letter Agreement dated December 15, 2002 between ViaCell and Paul Hastings.** Previously filed as Exhibit 10.9 to the Previous Registration and incorporated herein by reference. |
| 10.12 | Letter Agreement dated August 13, 2003 between ViaCell and George Daley.** Filed herewith. |
| 10.13 | Stock Purchase Agreement dated September 30, 2003 by and among ViaCell, Kourion Therapeutics AG and the shareholders of Kourion Therapeutics signatory thereto. Filed herewith. |

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| Exhibit No. | Description of Document |
|-------------|---|
| 10.14 | Series J Convertible Preferred Stock Purchase Agreement dated September 30, 2003 by and among ViaCell and the Purchasers named therein. Filed herewith. |
| 10.15.1 | Form of Promissory Note issued by ViaCell to General Electric Capital Corporation. Filed herewith. |
| 10.15.2 | Master Security Agreement dated October 16, 2003 by and between ViaCell and General Electric Capital Corporation, as amended by an Amendment dated October 16, 2003. Filed herewith. |
| 10.15.3 | Form of Security Deposit Pledge Agreement by and between ViaCell and General Electric Capital Corporation. Filed herewith. |
| 10.16 | Non-Exclusive License Agreement dated January 1, 2003 between ViaCell and SmithKline Beecham Corporation d/b/a GlaxoSmithKline and Glaxo Group Limited. Filed herewith. |
| 10.17 | Co-Development and License Agreement dated July 15, 2003 between ViaCell and Gamete Technology, Inc. Filed herewith. |
| 10.18 | Collaboration Agreement dated December 23, 2003 between ViaCell and Amgen Inc. Filed herewith. |
| 10.19 | License Agreement dated January 18, 2001 between Cerebrotec, Inc., now ViaCell Neuroscience, Inc., and the General Hospital Corporation, d/b/a Massachusetts General Hospital. Filed herewith. |
| 10.20 | License Agreement dated March 15, 2002 between ViaCell Endocrine Science, Inc. and the General Hospital Corporation, d/b/a Massachusetts General Hospital. Filed herewith. |
| 10.21 | License Agreement dated August 1, 2002 between ViaCell and Massachusetts Institute of Technology. Filed herewith. |
| 10.22 | Sublease Agreement dated December 27, 2000 between ViaCell and AIDS Action Committee of Massachusetts, Inc. Previously filed as Exhibit 10.19 to the Previous Registration and incorporated herein by reference. |
| 10.23 | Sublease Agreement dated November 1, 2001 between ViaCell and ARIAD Corporation. Previously filed as Exhibit 10.21 to the Previous Registration and incorporated herein by reference. |
| 10.24 | Lease Agreement dated April 20, 1999 between Viacord, Inc. and Molded Antennas for Telecommunications, Inc. Previously filed as Exhibit 10.20 to the Previous Registration and incorporated herein by reference. |
| 10.25 | Lease Agreement dated April 12, 2002 between Viacord, Inc. and Dugan Financing LLC. Filed herewith. |
| 10.26 | Sublease Agreement dated April 11, 2002 between ViaCell and Advanced Cell Technology, Inc. Filed herewith. |
| 10.27 | Lease Agreement dated March 25, 2002 between ViaCell and Singapore Science Park Limited. Filed herewith. |
| 10.28 | Lease Agreement dated February 24, 2001, as amended May 31, 2001, between ViaCell and ARE-One Innovation Drive, LLC. Previously filed as Exhibit 10.18 to the Previous Registration and incorporated herein by reference. |
| 10.29 | Lease Agreement dated December 22, 2003 between ViaCell and MA-Riverview/245 First Street, LLC. Filed herewith. |
| 10.30 | Summary of Lease Agreement dated October 1, 2002 between Kourion Therapeutics AG and W.H.L. Grundstücksgemeinschaft Gbr. Filed herewith. |
| 10.31 | Letter Agreement dated March 11, 2004 between ViaCell and Stephen Dance.** Filed herewith. |

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| Exhibit No. | Description of Document |
|--------------------|---|
| 21.1 | Subsidiaries of ViaCell. Filed herewith. |
| 23.1 | Consent of PricewaterhouseCoopers LLP. Filed herewith. |
| 23.2 | Consent of PricewaterhouseCoopers GmbH. Filed herewith. |
| 23.3* | Consent of Ropes & Gray LLP. Included in the opinion to be filed by amendment as Exhibit 5.1. |
| 24.1 | Power of Attorney (included on signature page of the Registration Statement). |

(1) As proposed to be filed with the Secretary of State of the State of Delaware concurrently with the closing of this offering.

This exhibit has been filed separately with the Commission pursuant to an application for confidential treatment. The confidential portions of this exhibit have been omitted and are marked by an asterisk.

* To be filed by amendment.

** Indicates a management contract or compensatory plan.