

PLURISTEM LIFE SYSTEMS INC
 Form 10QSB
 February 15, 2005

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

Form 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period
 ended **December 31, 2004**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period
 from _____ to

Commission file
 number **001-31392**

PLURISTEM LIFE SYSTEMS, INC.	
(Exact name of small business issuer as specified in its charter)	
Nevada	98-0351734
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
MATAM Advanced Technology Park, Building No. 20, Haifa, Israel 31905	
(Address of principal executive offices)	
011-972-4-850-1080	
(Issuer's telephone number)	
N/A	
(Former name, former address and former fiscal year, if changed since last report)	

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 31,108,483 common shares issued and outstanding as of January 25, 2005

Transitional Small Business Disclosure Format (Check one): Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY
(A Company in the Development Stage)
(Previous Name - A. I. SOFTWARE INC.)
CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2004

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2004

IN U.S. DOLLARS

INDEX

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Page

Consolidated Balance Sheet	2-3
Consolidated Statements of Operations	4
Statements of changes in Stockholders' Equity (Deficiency)	5-7
Consolidated Statements of Cash Flows	8-9
Notes to Consolidated Financial Statements	10-14

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2

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED BALANCE SHEETS

In U.S. Dollars (except share data)

-

-

December
31, 2004
(Unaudited)

ASSETS

CURRENT

ASSETS:

\$J65,409

Cash
and
cash
equivalents

2,439

Prepaid
expenses

24,807

Other
accounts
receivables

292,655

Total

current assets

22,204

LONG-TERM
RESTRICTED
LEASE
DEPOSIT

17,560

SEVERANCE
PAY
FUND

240,533

PROPERTY
AND
EQUIPMENT,
NET

287,238

DEFERRED
ISSUANCE
EXPENSES

\$ 860,190

Total

assets

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

3

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED BALANCE SHEETS

In U.S. Dollars (except share data)

-

December
31, 2004
(Unaudited)

LIABILITIES
AND
STOCKHOLDERS'
EQUITY

CURRENT
LIABILITIES:

	12,539
Short-term bank credit \$	
	68,750
Current maturities know-how licensors	
	110,574
Trade payables	
	159,961
Accrued expenses	
	58,568
Other accounts payable	
	410,392
<u>Total</u>	

current liabilities

LONG-TERM
LIABILITIES

	174,688
Know-how licensors, net of current maturities	
	150,000
Liability in respect of warrants	
	29,393

Accrued
severance
pay

354,081

**STOCKHOLDERS
EQUITY**

Share
capital:

Common
stock

\$0.00001 301

par value:

Authorized:
1,400,000,000
shares

Issued and
Outstanding:
30,108,483
shares

3,355,619

Additional
paid-in
capital

(3,260,203)

Deficit
accumulated
during the
development
stage

95,717

\$ 860,190

-

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

4

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In U.S. Dollars (except share and per share data)

Six Month Period Ended December 31,		Three Month Period Ended December 31,		Period From May 11, 2001 (Inception) Through December 31, 2004
2004	2003	2004	2003	
\$ 411,305	\$ 394,117	\$ 149,970	\$ 188,041	\$ 1,768,737
478,857	279,836	265,508	169,061	2,410,893
-	-	-	-	246,470
890,162	673,953	415,478	357,102	4,426,100
(181,207)	19,131	(13,597)	13,523	(1,165,897)

£ 708,955 \$ 693,084 \$ 401,881 \$ 370,625 \$ 3,260,203

£ (0.03) \$ (0.03) \$ (0.01) \$ (0.02)

27,423,700 22,495,398 27,953,592 22,558,483

(*) Reclassified

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

5

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS'
EQUITY (DEFICIENCY)

In U.S. Dollars (except
shares data)

Common Stock Shares	Amount	Additional paid-in Capital	Receipts On account of shares	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficiency)
-	\$ -	\$ -	\$ -	\$ -	\$ -
5,000,000	350	2,150	-	-	2,500
5,000,000	350	2,150	-	-	2,500
-	-	-	-	(77,903)	(77,903)
5,000,000	350	2,150	-	(77,903)	(75,403)

1,133,000	141	83,450	-	-	83,591
-	-	11,760	-	-	11,760
(300,000)	(273)	273	-	-	-
-	-	-	933,464	-	933,464
-	-	-	-	(462,995)	(462,995)
,833,000	\$ 218	\$ 97,633	\$ 933,464	\$ (540,898)	\$ 490,417

6

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS'
EQUITY

In U.S. Dollars (except
shares data)

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Common Stock Shares	Amount	Additional paid-in Capital	Receipts on account of shares	Deficit accumulated During the development stage	Total Shareholders' Equity
833,000	\$ 218	\$ 97,633	\$ 933,464	\$ (540,898)	\$ 490,417
725,483	7	1,235,752	(933,464)	-	302,295
000,000	30	-	-	-	30
-	-	192,000	-	-	192,000
000,000	10	799,990	-	-	800,000
-	-	357,618	-	-	357,618
300,000	3	224,997	-	-	225,000

- - - - (2,010,350) (2,010,350)

858,483 \$J68 \$2,907,990 \$ - \$ (2,551,248) \$ 357,010

7

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS'
EQUITY

In U.S. Dollars (except
shares data)

	Additional paid-in	Receipts on account	Deficit accumulated During the development	Total Shareholders'
Common				

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Shares	Stock Amount	capital	of shares	stage	Equity
,858,483	\$ 268	\$2,907,990	\$ -	\$(2,551,248)	\$ 357,010
-	-	151,570	-	-	151,570
,250,000	333	296,059	-	-	296,092
-	-	-	-	(708,955)	(708,955)
,108,483	\$ 301	\$3,355,619	\$ -	\$(3,260,203)	\$ 95,717

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In U.S. Dollars

	Six months ended December 31,		Period from May 11, 2001 (inception) through December 31 2004
	2004	2003	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (708,955)	\$ (693,084)	\$ (3,260,203)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	15,675	43,192	125,476
Impairment of know-how	-	-	264,807
Amortization of deferred issuance costs	69,868	-	131,972
	151,570	-	1,309,188

stock-based compensation to consultants			
in-process research and development write-off	-	-	246,470
know-how intangible assets - amortized	5,811	15,082	29,288
increase in accounts receivable	(9,475)	(18,346)	(15,971)
Decrease (increase) in prepaid expenses	54,471	-	(2,439)
increase (decrease) in trade payables	(2,301)	(32,068)	101,167
increase (decrease) in other accounts payable and accrued expenses	39,814	(7,156)	(208,080)
increase in accrued interest due to related parties	-	-	3,450
linkage differences and interest on long-term restricted lease deposit	(1,245)	(459)	(2,221)
change in fair value of liability in respect of warrants	(270,000)	-	(1,349,970)
accrued deferred tax	3,710	2,555	11,833
Net cash used in operating	(651,057)	(690,284)	(2,615,233)

activities

CASH
FLOWS
FROM
INVESTING
ACTIVITIES:

Acquisition of Pluristem Ltd. (1)	-	-	31,899
Purchase of property and equipment	(29,759)	(24,530)	(155,416)
Investment in long-term restricted lease deposit	-	2,629	(1,176)
Purchase of know-how		-	(100,000)
Net cash used in investing activities	(29,759)	(21,901)	(224,693)

CASH
FLOWS
FROM
FINANCING
ACTIVITIES:

Issuance of common stock, net of issuance costs	296,092	302,295	909,508
Issuance of warrants	-	-	1,272,790
Receipts on account of stocks	-	-	933,464
Short-term bank credit, net	12,516	10,351	12,513
Repayment of know-how censors	(31,250)	-	(31,250)
Proceeds from notes and loan	-	-	78,195

payable to related parties			
repayments of now - how censes	-	-	(69,885)
Net cash provided by financing activities	277,358	312,646	3,105,335
increase (decrease) in cash and cash equivalents	(403,458)	(399,539)	265,409
Cash and cash equivalents at the beginning of the period	668,867	507,337	-
Cash and cash equivalents at the end of the period	\$265,409	\$ 107,798	\$265,409

9

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In U.S. Dollars

	Period
	from
	May 11,
Six months	2001
ended	(inception)
December 31,	through
	December
	31,

2004 2003 2004

Non-cash
investing and
financing
information:

Unpaid know-how	\$-	\$300,000	\$268,750
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Forgiveness of debt	\$ -	\$11,760	\$ 11,760
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(1)
Acquisition
of Pluristem
Ltd.

Fair value of
assets
acquired
andR>

liabilities
assumed at
the
acquisition
date:

Working capital (excluding cash and cash			\$(427,176)
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equivalents)

Long-term restricted lease deposit			18,807
--	--	--	--------

			130,000
--	--	--	---------

Property and
equipment

In-process
research and
development
write-off

246,470

\$(31,899)

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

10

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. Dollars

NOTE 1: - GENERAL

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a. Pluristem Life Systems Inc. (the Company"), a Nevada Corporation, was incorporated and commenced operations on May 11, 2001. The Company has a wholly owned subsidiary, Pluristem Ltd. (the "subsidiary") that was incorporated under the laws of Israel, and began its activity in January 2004.

b. The Company is devoting substantially all of its efforts towards conducting research and development of critical cell expansion services to cord blood banks. In the course of such activities, the Company and its subsidiary have sustained operating losses and expect such losses to continue in the foreseeable future. The Company and its subsidiary have not generated any revenues or product sales and have not achieved profitable operations or positive cash flows from operations. The Company's deficit accumulated during the development stage aggregated to approximately \$3,260,203 through December 31, 2004. There is no assurance that profitable operations, if ever

achieved, could be sustained on a continuing basis.

The Company plans to continue to finance its operations with a combination of stock issuance and private placements and in the longer term, revenues from product sales. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing needed for the long-term development and commercialization of its planned products.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might arise from this uncertainty, relating to the recoverability and classification of recorded assets amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

c. The accompanying unaudited interim consolidated financial statements have been prepared as of December 31, 2004 and for the six months and three months then ended, in accordance with United States generally accepted accounting principles relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended December 31, 2004 are not necessarily indicative of the results that may be expected for the year ended June 30, 2005.

11

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. Dollars

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual consolidated financial statements of the Company as of June 30, 2004 are applied consistently in these consolidated financial statements.

These financial statements should be read in conjunction with the audited annual financial statements of the Company as of June 30, 2004 and their accompanying notes.

Certain amounts from prior years have been reclassified to conform to current period presentation.

b. Accounting for stock-based compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees ("APB 25") and FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation ("FIN 44") in accounting for its employee stock option plan. Under APB 25, when the exercise price of the Company's stock options is less than the market price of the underlying stocks on the date of grant, compensation expense is recognized over the vesting period.

Pro forma information regarding the Company's net loss and net loss per stock as required by Financial Accounting Standards Board Statement No. 148 "Accounting for Stock Based Compensation - Transaction and Disclosure ("SFAS

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No. 148") that amended Financial Accounting Standards Board Statement No. 123 ("SFAS 123") has been determined as if the Company had accounted for its stock options under the fair value method prescribed by SFAS No. 123.

The fair value for options granted is amortized over their vesting period and estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Dividend yield	0%
Volatility	98%
Weighted average risk-free interest rate	4.2%
Expected life (in years)	10

12

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. Dollars

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

Pro forma information under SFAS No. 123, is as follows:

	Six months ended December 31,		Period from Three May 11, months2001 (In ended inception) December through 31, December 31,	
	2004	2003	2004	2003
Loss				
Attributable to	\$ 708,955	\$ 401,881	\$	
Common stock		693,084	370,625	\$
Reported				3,260,203

uct -				
k-based				
oyee	-	--	-	-
pensation -				
insic value				
- stock				
d				
oyee	396,238	2,497,818	1,207	1,595,438
pensation-				
value				
forma net	\$1,105,193	\$	\$	
		690,299		\$4,855,641
			371,832	
c and				
ted net loss	\$ (0.03)	\$ (0.03)		
stock as			\$ (0.02)	
orted				
c and				
ted pro	\$ (0.04)	\$ (0.02)		\$
na net loss				
stock			(0.02)	

c. Non-royalty-bearing grants

The Company receives non-royalty-bearing grants from the European Union Research and Development Program, and from the MOST and STRIMM consortiums, which are part of the Office of the Chief Scientist Magnet program. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred and are recorded as a reduction of research and development costs.

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13

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. Dollars

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

-

c. Impact of recently issued accounting standards:

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25 Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of cash flows. Generally the approach in statement 123(R) is similar to the approach described in statement 123. However, Statement 123(R) requires all shares-based payment to employees, including grants of employee stock options, to be recognized in the income statement based on their fair value. Pro forma disclosure is no longer an alternative. Statement 123 (R) must be adopted no later than period beginning after December 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt statement 123(R) on January 1,2006.

NOTE 3: - CHANGES IN SHARE CAPITAL

a. Warrants issued to consultants:

In the framework of the stock option plan, the Company issued on December 30, 2003, 500,000 warrants to a consultant, for carrying out investor relation's activities over a period of two years ending December 31, 2004. On July 2004, the Company's board of directors approved to modify the terms of those 500,000 options (of which 250,000 are with an exercise price of \$1 per stock and 250,000 with an exercise price of \$1.25 per stock) to provide for a cashless exercise of the options. The board of directors also resolved that the options' exercise price will be reduced to \$0.4 and that the options will be fully vested.

In addition, it was resolved to grant the consultant additional 500,000 options with an exercise price of \$0.4 per stock, vested immediately and with a cashless exercise feature.

The Company accounted for its warrants to consultants under the fair value method in accordance of SFAS 123 and EITF 96-18 "Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in Conjunction with selling Goods or Services". The fair value for these warrants was estimated using Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rates of 4.12%, expected dividend yield of 0%, expected volatility of 98%, and a weighted-average contractual life of the warrants of approximately 9.5 years.

Compensation expenses of \$153,546 were recognized during the six month period ended December 31, 2004 in respect of the warrants to this consultant.

14

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. Dollars

NOTE 3: CHANGES IN SHARE CAPITAL (continued)

b. On October 17, 2004 the Board of Directors decided to reduce the exercise price of the options that were granted to the Company's employees and directors from \$0.76 to \$0.3. According to APB Opinion No. 25 and FIN 44 when the exercise price of a fixed stock option award is reduced, the award shall be accounted for as variable from the date of modification to the date the award is exercised, forfeited, or expires unexercised. The reduction of the exercise price did not result in compensation expenses in the reported period.

c. In October 2004 the Company Board of Directors approved a private placement agreement ("the Agreement") to issue up to 15,000,000 units. Each unit is comprised of one common stock and one warrant. The warrant is exercisable for one common stock at an exercise price of \$0.30 per stock, and may be exercised until November 30, 2006. The Agreement includes a finder's fee of a cash amount equal to 5% of the amount invested and issuance of warrants for number of shares equal to 5% of the number of shares that will be issued with an exercise price of \$0.3 per stock exercisable until November 30, 2006.

In November 2004, the Company issued according to the Agreement 3,250,000 units comprised of 3,250,000 common stock and 3,250,000 warrants to a group of investors, for total consideration of \$296,092 (net of cash issuance costs of \$28,908), and additional 162,500 warrants to finders as finders' fee.

In January 2005 the Company issued according to the Agreement an additional 4,300,000 units for total consideration of \$408,500 (net of cash issuance costs of \$21,500), and additional 215,000 warrants were issued to finders as a finders' fee. The investors have the right to purchase up to additional 7,450,000 units with

the same terms of the Agreement until February 28, 2005.

d. On January 31, 2005 the Company issued 7,000,000 units under another private placement in consideration for \$700,000. Each unit is comprised of one common stock and one warrant. The warrant is exercisable for one common stock at a price of \$0.30 per stock and may be exercised until November 30, 2006. The Company agreed to pay finders' fee in cash equal to 5% of the amount invested and to issue warrants for number of shares equal to 5% of the number of shares issued for this investor with an exercise price of \$0.30 per stock exercisable until November 30, 2006.

NOTE 4: -

GRANT RECEIVED FROM THE GOVERNMENT OF ISRAEL

The Company's subsidiary received funding as part of its participation in the Office of Chief Scientist Magnet program operated by Israel's Ministry of Industry and Trade. Through December

31, 2004, the subsidiary received grants in the amount of \$54,267.

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15

Item 2. Management's Discussion and Analysis or Plan of Operation.

FORWARD LOOKING STATEMENTS

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this quarterly report, unless otherwise specified, all dollar amounts are e