

PLURISTEM THERAPEUTICS INC

Form 10-Q

November 06, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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

For the transition period from _____ to _____

Commission file number 001-31392

PLURISTEM THERAPEUTICS INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

98-0351734
(IRS Employer Identification No.)

MATAM Advanced Technology Park, Building No. 20, Haifa, Israel 31905
(Address of principal executive offices)

+972-74-710-7171
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date:
57,402,952 shares of common stock issued and outstanding as of October 29, 2012.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2012

(unaudited)

2

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2012

U.S. DOLLARS IN THOUSANDS

(Unaudited)

INDEX

| | Page |
|---|--------------------|
| <u>Consolidated Balance Sheets</u> | F - 2 - F - 3 |
| <u>Consolidated Statements of Operations</u> | F - 4 |
| <u>Consolidated Statements of Comprehensive Income (Loss)</u> | F - 5 |
| <u>Statements of Changes in Equity</u> | F - 6 - F - 7 |
| <u>Consolidated Statements of Cash Flows</u> | F - 8 - F - 9 |
| <u>Notes to Consolidated Financial Statements</u> | F - 10 - F - 17 |

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

U.S. Dollars in thousands

| | Note | September 30, 2012 Unaudited | June 30, 2012 Audited |
|--|------|------------------------------------|--------------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | | \$ 38,751 | \$ 9,389 |
| Short term bank deposits | | 21,434 | 21,397 |
| Marketable securities | 3 | 8,129 | 7,023 |
| Other accounts receivable and prepaid expenses | | 1,668 | 383 |
| Total current assets | | 69,982 | 38,192 |
| LONG-TERM ASSETS: | | | |
| Long-term deposits and restricted deposits | | 984 | 1,287 |
| Advance payment for leasehold improvements | | 3,428 | 2,400 |
| Property and equipment, net | | 6,440 | 5,019 |
| Severance pay fund | | 571 | 522 |
| Other long term assets | | 39 | - |
| Total long-term assets | | 11,462 | 9,228 |
| Total assets | | \$ 81,444 | \$ 47,420 |

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

U.S. Dollars in thousands

| | Note | September 30, 2012 Unaudited | June 30, 2012 Audited |
|---|------|------------------------------------|--------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Trade payables | | \$ 1,696 | \$ 1,368 |
| Accrued expenses | | 1,069 | 922 |
| Deferred revenues | | 779 | 779 |
| Advance payment from United Therapeutics | | 959 | 1,576 |
| Other accounts payable | | 729 | 877 |
| Total current liabilities | | 5,232 | 5,522 |
| LONG-TERM LIABILITIES | | | |
| Deferred revenues | | 3,310 | 3,505 |
| Accrued severance pay | | 709 | 651 |
| Total long term liabilities | | 4,019 | 4,156 |
| COMMITMENTS AND CONTINGENCIES | 5 | | |
| STOCKHOLDERS' EQUITY | | | |
| Share capital: | 6 | | |
| Common stock \$0.00001 par value: | | | |
| Authorized: 100,000,000 shares | | | |
| Issued and outstanding: 57,257,230 shares as of | | | |
| September 30, 2012, 46,448,051 shares as of June 30, 2012 | | - (*) | - (*) |
| Additional paid-in capital | | 141,836 | 103,619 |
| Accumulated deficit | | (69,742) | (65,747) |
| Other comprehensive gain (loss) | | 99 | (130) |
| | | 72,193 | 37,742 |
| | | \$ 81,444 | \$ 47,420 |

(*) Less than \$1.

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. Dollars in thousands (except share and per share data)

| | Three months ended September 30, | |
|--|-------------------------------------|------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| Revenues | \$195 | \$154 |
| Cost of revenues | (6) | (5) |
| Gross profit | 189 | 149 |
| Research and development expenses | (3,748) | (2,863) |
| Less participation by the Office of the Chief Scientist and other parties | 1,050 | 19 |
| Research and development expenses, net | (2,698) | (2,844) |
| General and administrative expenses | (1,681) | (1,637) |
| Operating loss | (4,190) | (4,332) |
| Financial income (expenses), net | 195 | (161) |
| Net loss for the period | \$(3,995) | \$(4,493) |
| Loss per share: | | |
| Basic and diluted net loss per share | \$(0.08) | \$(0.11) |
| Weighted average number of shares used in computing basic and diluted net loss per share | 47,833,654 | 42,779,293 |

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. Dollars in thousands

| | Three months ended September 30, | |
|---|-------------------------------------|-------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| Net loss | \$ (3,995) | \$ (4,493) |
| Other comprehensive income, net of tax: | | |
| Unrealized gain on available for sale marketable securities | 229 | 1 |
| Total comprehensive loss | \$ (3,766) | \$ (4,492) |

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

U.S. Dollars in thousands (except share and per share data)

| | Common Stock Shares | Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive gain | Accumulated Deficit | Total Stockholders' Equity |
|---|------------------------|-----------------|----------------------------------|---|------------------------|----------------------------------|
| Balance as of July 1, 2011 | 42,443,185 | \$ (*) | \$ 94,375 | \$ - | \$ (50,953) | \$ 43,422 |
| Exercise of options by employees and consultants | 12,500 | (*) | 8 | - | - | 8 |
| Exercise of warrants by investors and finders | 198,714 | (*) | 315 | - | - | 315 |
| Stock based compensation to employees, directors and non-employee consultants | 330,844 | (*) | 1,041 | - | - | 1,041 |
| Unrealized gain on available for sale marketable securities | - | - | - | 1 | - | 1 |
| Net loss for the period | - | - | - | - | (4,493) | (4,493) |
| Balance as of September 30, 2011 | 42,985,243 | \$ (*) | \$ 95,739 | \$ 1 | \$ (55,446) | \$ 40,294 |

(*) Less than \$1.

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

U.S. Dollars in thousands (except share and per share data)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | | Total Accumulated Deficit | Total Stockholders' Equity |
|---|--------------|--------|----------------------------------|---|--------------|---------------------------------|----------------------------------|
| | Shares | Amount | | | | | |
| Balance as of July 1, 2012 | 46,448,051 | \$ (*) | \$ 103,619 | \$ (130) | \$ (65,747) | \$ 37,742 | |
| Issuance of common stock and warrants related to September 2012 public offering, net of issuance costs of \$2,694 | 9,200,000 | (*) | 34,106 | - | - | 34,106 | |
| Exercise of options by employees and consultants | 94,332 | (*) | 146 | - | - | 146 | |
| Exercise of warrants by investors and finders | 975,622 | (*) | 1,229 | - | - | 1,229 | |
| Stock based compensation to employees, directors and non-employee consultants | 539,225 | (*) | 1,336 | - | - | 1,336 | |
| Stock based compensation to contractor | - | - | 1,400 | - | - | 1,400 | |
| Unrealized gain on available for sale marketable securities | - | - | - | 229 | - | 229 | |
| Net loss for the period | - | - | - | - | (3,995) | (3,995) | |
| Balance as of September 30, 2012 | 57,257,230 | \$ (*) | \$ 141,836 | \$ 99 | \$ (69,742) | \$ 72,193 | |

(*) Less than \$1

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars in thousands

| | Three months ended September 30, | |
|--|-------------------------------------|-------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(3,995) | \$(4,493) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 130 | 97 |
| Capital loss | - | - |
| Stock-based compensation to employees, directors and non-employee consultants | 1,063 | 1,041 |
| Stock compensation to investor relations consultants | 273 | 1 |
| Increase in other accounts receivable | (746) | (76) |
| Increase in prepaid expenses | (483) | (20) |
| Decrease (increase) in trade payables | 988 | (87) |
| Increase in other accounts payable and accrued expenses | 30 | 205 |
| Increase (decrease) in deferred revenues | (195) | 4,846 |
| Increase (decrease) in advance payment from United Therapeutics | (617) | 2,000 |
| Linkage differences and Increase (decrease) interest on short and long-term deposit and restricted lease deposit | (37) | 55 |
| Accretion of discount, amortization of premium and changes in accrued interest from marketable securities | 43 | 4 |
| Loss (gain) from sale of investments of available for sale marketable securities | 15 | - |
| Accrued severance pay, net | 9 | (1) |
| Net cash used in (provided by) operating activities | \$(3,522) | \$3,461 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | \$(1,978) | \$(179) |
| Investment in short-term deposits | - | (31,599) |
| Repayment (Investment) in long-term deposits | 300 | (690) |
| Repayment of long-term restricted deposit | 3 | 4 |
| Proceeds from sale and redemption of available for sale marketable securities | 313 | - |
| Investment in available for sale marketable securities | (1,248) | (516) |
| Net cash used in investing activities | \$(2,610) | \$(32,980) |

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. Dollars in thousands

| | Three months ended September 30, | |
|--|-------------------------------------|-----------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of common stock and warrants, net of issuance costs | \$34,106 | \$- |
| Exercise of warrants and options | 1,388 | 323 |
| Net cash provided by financing activities | \$35,494 | \$323 |
| Increase (decrease) in cash and cash equivalents | 29,362 | (29,196) |
| Cash and cash equivalents at the beginning of the period | 9,389 | 42,829 |
| Cash and cash equivalents at the end of the period | \$38,751 | \$13,633 |
| (a) Supplemental disclosure of cash flow activities: | | |
| Cash paid during the period for: | | |
| Taxes paid due to non-deductible expenses | \$3 | \$8 |
| (b) Supplemental disclosure of non-cash activities: | | |
| Purchase of property and equipment on credit | \$78 | \$109 |
| Stock based compensation to contractor | \$1,400 | \$- |

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

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 1:-GENERAL

- a. Pluristem Therapeutics Inc., a Nevada corporation, was incorporated on May 11, 2001. Pluristem Therapeutics Inc. has a wholly owned subsidiary, Pluristem Ltd. (the "Subsidiary"), which is incorporated under the laws of the State of Israel. Pluristem Therapeutics Inc. and the Subsidiary are referred to as the "Company".
- b. The Company is a bio-therapeutics company developing standardized cell therapy products from human placenta for the treatment of multiple disorders. The Company has sustained operating losses and expects such losses to continue in the foreseeable future. The Company's accumulated losses aggregated to \$69,742 through September 30, 2012 and the Company incurred a net loss of \$3,995 for the three months ended September 30, 2012. 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 sales of equity securities, entering into licensing technology agreements such as the United Therapeutics Corporation ("United Therapeutics") agreement, and from grants to support its R&D activity. In the longer term, the Company plans to finance its operations from revenues from sales of products.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Unaudited Interim Financial Information

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 considered necessary for a fair presentation have been included (consisting only of normal recurring adjustments except as otherwise discussed). Certain items in the prior period's comparative consolidated financial statements have been reclassified to conform to the current period's presentation. Royalties to the OCS expense in the amount of \$5 was reclassified from R&D to cost of revenue. This reclassification did not impact total assets, total liabilities, stockholders' equity, results of operations or cash flows.

Operating results for the three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

b. Fair value of financial instruments:

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, available-for-sale marketable securities, short-term deposits, trade payable and other accounts payable and accrued liabilities, approximate fair value because of their generally short term maturities.

The Company accounts for certain assets and liabilities at fair value under ASC 820, "Fair Value Measurements and Disclosures." Fair value is an exit price, representing the amount that would be received to sell an asset or paid to

transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

F - 10

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

b.Fair value of financial instruments (cont.)

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with insufficient volume or infrequent transactions, or other inputs that are observable (model-derived valuations in which significant inputs are observable), or can be derived principally from or corroborated by observable market data; and

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company categorized each of its fair value measurements in one of these three levels of hierarchy.

c.Derivative financial instruments

The Company's derivatives are not designated as hedging accounting instruments under ASC 815, "Derivatives and Hedging". Those derivatives consist primarily of forward and options contracts the Company uses to hedge the Company's exposures to currencies other than the U.S. dollar. The Company recognized derivative instruments as either assets or liabilities and measures those instruments at fair value. Since the derivative instruments that the Company holds do not meet the definition of hedging instruments under ASC 815, the Company recognizes changes in the fair values in its statement of income in financial income, net, in the same period as the re-measurement gain and loss of the related foreign currency denominated assets and liabilities.

The fair value of the forward and options contracts as of September 30, 2012 and June 30, 2012 were recorded as an asset of \$15 and liability of \$138, respectively.

d. Impact of recently issued accounting standards:

In May 2011, the FASB issued changes to the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The new guidance does not change the items that must be reported in other comprehensive income. In December 2011, the FASB deferred the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. The new reporting requirement is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2011, with early adoption permitted. The Company adopted the accounting pronouncement as of July 1, 2012, and the effect on the Company's consolidated financial statements was to present activity impacting net income and other comprehensive loss in two consecutive statements.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 3:- MARKETABLE SECURITIES

As of September 30, 2012, all of the Company's marketable securities were classified as available-for-sale.

| | September 30, 2012 | | | | June 30, 2012 | | | |
|---|--------------------|-----------------------------|-----------------------------|---------------|-------------------|-----------------------------|-----------------------------|---------------|
| | Amortized cost | Gross unrealized gain | Gross unrealized loss | Fair value | Amortized cost | Gross unrealized gain | Gross unrealized loss | Fair value |
| Available-for-sale - matures within one year: | | | | | | | | |
| Stock and index linked notes | \$1,294 | \$ 105 | \$ (36) | \$1,363 | \$1,264 | \$ 57 | \$ (56) | \$1,265 |
| Government debentures – fixed interest rate | 152 | 4 | - | 156 | 57 | - | - | 57 |
| Corporate debentures – fixed interest rate | 304 | 6 | (1) | 309 | 303 | 2 | (2) | 303 |
| | \$1,750 | \$ 115 | \$ (37) | \$1,828 | \$1,624 | \$ 59 | \$ (58) | \$1,625 |
| Available-for-sale - matures after one year through five years: | | | | | | | | |
| Government debentures – fixed interest rate | 1,366 | 18 | (37) | 1,347 | 1,417 | 12 | (42) | 1,387 |
| Corporate debentures – fixed interest rate | 4,042 | 89 | (33) | 4,098 | 2,829 | 20 | (57) | 2,792 |
| | \$5,408 | \$ 107 | \$ (70) | \$5,445 | \$4,246 | \$ 32 | \$ (99) | \$4,179 |
| Available-for-sale - matures after five years through ten years: | | | | | | | | |
| Government debentures – fixed interest rate | 427 | 2 | (12) | 417 | 467 | - | (23) | 444 |
| Corporate debentures – fixed interest rate | 445 | 2 | (8) | 439 | 816 | 3 | (44) | 775 |
| | \$872 | \$ 4 | \$ (20) | \$856 | \$1,283 | \$ 3 | \$ (67) | \$1,219 |
| | \$8,030 | \$ 226 | \$ (127) | \$8,129 | \$7,153 | \$ 94 | \$ (224) | \$7,023 |

The Company typically invests in highly-rated securities. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's amortized cost

basis. Based on the above factors, the Company concluded that unrealized losses on all available-for-sale securities were not other-than-temporary and no credit loss was present for any of its investments. As such, the Company did not recognize any impairment charges on outstanding securities during the three months ended September 30, 2012.

NOTE 4:- FAIR VALUE OF FINANCIAL INSTRUMENTS

| | September 30, 2012 | | | June 30, 2012 | | |
|-----------------------|--------------------|---------|---------|---------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Marketable securities | \$4,234 | \$3,895 | - | \$4,181 | \$2,842 | \$- |
| Derivatives | - | 15 | - | - | (138) | - |
| Total | \$4,234 | \$3,910 | \$- | \$4,181 | \$2,704 | \$- |

F - 12

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 5: - COMMITMENTS AND CONTINGENCIES

Commitments and contingencies that changed during the three months ended September 30, 2012 include the following:

- a. Decrease in the amount of \$300 of cash pledged by the Company to secure its hedging transactions, credit line and bank guarantees.

NOTE 6: - SHARE CAPITAL AND STOCK OPTIONS

- a. As part of the agreement for building the new Company's facility with Biopharmax Group Ltd ("Biopharmax"), the Company issued 1,500,000 shares of common stock to Biopharmax during fiscal year 2012. Total consideration from selling the shares amounted to \$5,071. As of September 30, 2012 a balance of \$3,428 was recorded in the Company balance sheet as an advanced payment asset from the total consideration.
- b. In July through September 2012, a total of 479,532 warrants were exercised via a "cashless" manner, resulting in the issuance of 287,483 shares of common stock to investors of the Company. The Company has a commitment to issue additional 28,860 shares of common stock to one of its shareholders. In addition, 688,139 warrants were exercised and resulted in the issuance of 688,139 shares of common stock to investors of the Company. The aggregate cash consideration received was \$1,229.
- c. On September 19, 2012, the Company closed a firm commitment underwritten public offering of 8,000,000 units, at a purchase price of \$4.00 per unit, with each unit consisting of one share of the Company's common stock and one warrant to purchase 0.35 shares of common stock, at a purchase price of \$5.00 per share. The warrants sold in the offering will be exercisable on March 19, 2013 and expire on September 19, 2017. The Company has also granted the underwriters a 30-day option to purchase up to 1,200,000 shares of common stock and/or warrants to purchase up to 420,000 shares of common stock. As of September 24, 2012 the underwriters fully exercised their option. The aggregate net proceeds to the Company from the offering, including from the exercise in full of the option, are \$34,106, before the exercise of any warrants (which has not yet occurred) and after deducting underwriting commissions and discounts and offering expenses of the Company.

The warrants can be exercised only for full share of common stock. As to any fraction of a shares which the warrant holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to such fraction multiplied by the fair market value less the exercise price.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 6: - SHARE CAPITAL AND STOCK OPTIONS (CONT.)

d. Options, warrants, restricted stock and restricted stock units to employees, directors and consultants:

1. Options to employees and directors:

The Company accounted for its options to employees and directors under the fair value method in accordance with ASC 718, "Compensation — Stock Compensation". A summary of the Company's share option activity for options granted to employees and directors under the Plans is as follows:

| | Three months ended September 30, 2012 | | | |
|--|---------------------------------------|--|--|---------------------------------------|
| | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Terms (in years) | Aggregate Intrinsic Value Price |
| Options outstanding at beginning of period | 2,082,172 | \$ 3.87 | | |
| Options exercised | (74,332) | 1.57 | | |
| Options outstanding at end of the period | 2,007,840 | \$ 3.95 | 4.72 | \$ 1,968 |
| Options exercisable at the end of the period | 2,007,840 | \$ 3.95 | 4.72 | \$ 1,968 |
| Options vested | 2,007,840 | \$ 3.95 | 4.72 | \$ 1,968 |

Intrinsic value of exercisable options (the difference between the Company's closing stock price on the last trading day in the period and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on September 30, 2012. This amount changes based on the fair market value of the Company's common stock.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 6: - SHARE CAPITAL AND STOCK OPTIONS (CONT.)

d.Options, warrants, restricted stock and restricted stock units to employees, directors and consultants (cont.):

2. Options and warrants to non-employees:

A summary of the Company's activity related to options and warrants to consultants is as follows:

| | Number | Three months ended September 30, 2012 | | |
|---|-----------|--|--|---------------------------------------|
| | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Terms (in years) | Aggregate Intrinsic Value Price |
| Options and warrants outstanding at beginning of period | 382,000 | \$ 3.86 | | |
| Options and warrants exercised | (56,000) | 1.34 | | |
| Options and warrants outstanding at end of the period | 326,000 | \$ 4.29 | 4.90 | \$ 657 |
| Options and warrants exercisable at the end of the period | 314,000 | \$ 4.46 | 4.75 | \$ 609 |
| Options and warrants vested | 326,000 | \$ 4.29 | 4.90 | \$ 657 |

Compensation expenses related to options and warrants granted to consultants were recorded as follows:

| | Three months ended | |
|-------------------------------------|-----------------------|-------|
| | September 30, 2012 | 2011 |
| Research and development expenses | \$ - | \$ 10 |
| General and administrative expenses | 18 | 7 |
| | \$ 18 | \$ 17 |

Future expenses related to options and warrants granted to consultants for an average time of approximately two years is \$17.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 6: - SHARE CAPITAL AND STOCK OPTIONS (CONT.)

d.Options, warrants, restricted stock and restricted stock units to employees, directors and consultants (cont.):

3. Restricted stock and restricted stock units to employees and directors:

During the three months ended September 30, 2012, the Company granted restricted stock units to several Company's employees.

The following table summarizes the activities for unvested restricted stock units and restricted stock granted to employees and directors for the three months ended September 30, 2012:

| | Number |
|---|------------|
| Unvested at the beginning of period | 2,085,276 |
| Granted | 13,000 |
| Forfeited | (37,213) |
| Vested | (462,497) |
| Unvested at the end of the period | 1,598,566 |
| Expected to vest after September 30, 2012 | 1,566,803 |

Compensation expenses related to restricted stock and restricted stock units granted to employees and directors were recorded as follows:

| | Three months ended | |
|-------------------------------------|--------------------|--------|
| | September 30, | |
| | 2012 | 2011 |
| Research and development expenses | \$ 317 | \$ 253 |
| General and administrative expenses | 608 | 679 |
| | \$ 925 | \$ 932 |

Future expenses related to restricted stock and restricted stock units granted to employees and directors for an average time of approximately two years is \$1,512.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except per share amounts)

NOTE 6: - SHARE CAPITAL AND STOCK OPTIONS (CONT.)

d.Options, warrants, restricted stock and restricted stock units to employees, directors and consultants (cont.):

4. Restricted stock and restricted stock units to consultants:

During the three months ended September 30, 2012, the Company granted restricted stock units to several consultants and service providers.

The following table summarizes the activities for unvested restricted stock units and restricted stock granted to consultants for the three months ended September 30, 2012:

| | Number |
|---|----------|
| Unvested at the beginning of period | 66,000 |
| Granted | 66,228 |
| Vested | (76,728) |
| Unvested at the end of the period | 55,500 |
| Expected to vest after September 30, 2012 | 55,500 |

Compensation expenses related to restricted stock and restricted stock units granted to consultants were recorded as follows:

| | Three months ended | |
|-------------------------------------|--------------------|-------|
| | September 30, | |
| | 2012 | 2011 |
| Research and development expenses | \$ 120 | \$ 92 |
| General and administrative expenses | 273 | - |
| | \$ 393 | \$ 92 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward - Looking Statements

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other Federal securities laws, and is subject to the safe-harbor created by such Act and laws. Forward-looking statements may include statements regarding our goals, beliefs, strategies, objectives, plans, including product and technology developments, future financial conditions, results or projections or current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, comparable terminology. These statements are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those contemplated by the forward-looking statements. Such forward-looking statements appear in this Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," and include, but are not limited to, statements regarding the following: the expected development and potential benefits from our products in treating various medical conditions, the safety and efficacy of our PLX-PAD product as well as the extent to which it is tolerated, our plans, intentions or expectations regarding clinical studies and publication of results of such studies, our expectations regarding our short and long-term capital requirements and sufficiency of our capital resources, our plans to raise additional funding, including non-dilutive funding and governmental grants, the success of our plans to develop in house manufacturing capacity of clinical grade PLX cells in commercial quantities, the expansion of our relationships with research and clinical institutions as well as collaboration and entering into out-licensing agreements with other companies and information with respect to any other plans and strategies for our business. Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Further information on potential factors that could affect our business is described under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. Readers are also urged to carefully review and consider the various disclosures we have made in that report.

As used in this quarterly report, the terms "we", "us", "our", the "company" and "Pluristem" mean Pluristem Therapeutics Inc. and our wholly owned subsidiary, Pluristem Ltd., unless otherwise indicated or as otherwise required by the context.

Overview

We are a bio-therapeutics company developing standardized cell therapy products for the treatment of life threatening diseases. We are developing a pipeline of products, stored ready-to-use, derived from human placenta, a non-controversial, non-embryonic, adult cell source. Placental-derived adherent stromal cells are grown using our proprietary PluriX™ three-dimensional process that allows cells to grow in a natural environment and enables us to produce large quantities of clinical grade cells. We refer to the cells that are grown in the PluriX™ as our PLacental eXpanded cells, or PLX cells. We are expanding our in-house manufacturing capacity so that we will be able to grow large scale quantities of our cells efficiently and without reliance on outside vendors.

Our strategy is to develop and manufacture cell therapy products for the treatment of multiple disorders using several methods of administration. We plan to execute this strategy independently, using our own personnel, and through relationships with research and clinical institutions or in collaboration with other companies, such as United Therapeutics Corporation, or United. We plan to have in-house manufacturing capacity to grow clinical grade PLX cells in commercial quantities and to control all of our proprietary manufacturing processes in order to assist in executing this strategy.

We believe that intramuscular administration, or IM, which means that the cells are administered locally to the muscle and not systemically, may be suited for a number of different clinical indications. Such indications include peripheral artery disease, or PAD, critical limb ischemia, or CLI, intermittent claudication, or IC, muscle injuries, thromboangiitis obliterans, or Buerger's disease, neuropathic pain, wound healing, orthopedic injuries, bone marrow diseases and acute radiation syndrome. In addition, we have reported the results of animal and other pre-clinical studies that demonstrated the potential utility of our proprietary PLX cells, using other several administering methods, for the treatment of multiple sclerosis, ischemic stroke, inflammatory bowel disease, acute myocardial infarction, diabetic diastolic heart failure, interstitial lung disease and radiation exposure. Under our exclusive license agreement with United, or the United Agreement, we plan to participate in the development and commercialization of a PLX cell-based product for the treatment of pulmonary arterial hypertension, or PAH.

Our first product in development, called PLX-PAD, is intended to improve the quality of life of millions of people suffering from PAD.

RESULTS OF OPERATIONS –THREE MONTHS ENDED SEPTEMBER 30, 2012 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2011.

Revenues

Revenues for the three months ended September 30, 2012 in the amount of \$195,000 are from the United Agreement. The revenues increased by 27% from the revenues for the three months ended September 30, 2011 because we began recognizing revenue from this agreement only in August 2011.

Research and Development

Research and development expenses, net of participation of the Office of Chief Scientist, or the OCS, and other grants, for the three months ended September 30, 2012 decreased by 5% from \$2,844,000 for the three months ended September 30, 2011 to \$2,698,000. This decrease is attributed to an increase in the participation of the OCS this quarter compared to the first quarter of fiscal 2011 due to a delay in approving the 2011 OCS grant offset by an increase in our in-house research and development activity and the increase in expenses related to the clinical and preclinical trials we are involved with.

General and Administrative

General and administrative expenses for the three months ended September 30, 2012 increased by 3% from \$1,637,000 for the three months ended September 30, 2011 to \$1,681,000 mainly due to an increase in stock-based compensation expenses related to our employees and consultants, offset by bonuses to our officers and directors granted last year related to the United Agreement.

Financial Income, net

Financial income increased from an expense of \$161,000 for the three months ended September 30, 2011 to an income of \$195,000 for the three months ended September 30, 2012 due to exchange rate adjustments and hedging transactions, as described below, as well as interest income on bank deposits on larger cash balances.

Net Loss

Net loss for the three months ended September 30, 2012 was \$3,995,000 as compared to a net loss of \$4,493,000 for the three months ended September 30, 2011. Net loss per share for the three months ended September 30, 2012 was \$0.08 as compared to \$0.11 for the three months ended September 30, 2011.

For the periods ended September 30, 2012 and September 30, 2011, we had weighted average shares of common stock outstanding of 47,833,654 and 42,779,293, respectively, that were used in the computations of net loss per share for the three months. The increase in weighted average common shares outstanding reflects mainly shares issued in an underwritten public offering in September 2012, as well as shares issued as a result of exercise of warrants and options and issuance of restricted stock units to employees and consultants.

Liquidity and Capital Resources

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As of September 30, 2012, total current assets were \$69,982,000 and total current liabilities were \$5,232,000. On September 30, 2012, we had a working capital surplus of \$64,750,000, stockholders' equity of \$72,193,000 and an accumulated deficit of \$69,742,000. We finance our operations and plan to continue doing so from our existing cash, licensing agreements, funds from grants from the OCS and issuances of our securities.

Cash and cash equivalents as of September 30, 2012 amounted to \$38,751,000, compared to \$13,633,000 as of September 30, 2011. Cash balances increased in the three months ended September 30, 2012 for the reasons presented below.

Operating activities used cash of \$3,522,000 in the three months ended September 30, 2012, compared to providing cash of \$3,461,000 for the three months ended September 30, 2011. Cash used in operating activities in the three months ended September 30, 2012 primarily consisted of payments of salaries to our employees, and payments of fees to our consultants, subcontractors and professional services providers including costs of clinical studies offset by an OCS grant. The cash provided in the three months ended September 30, 2011 also consisted of receiving the upfront payment related to the License Agreement with United in the amount of \$7,000,000.

Investing activities used cash of \$2,610,000 in the three months ended September 30, 2012, compared to \$32,980,000 for the three months ended September 30, 2011. The investing activities in the three months ended September 30, 2012 consisted primarily of investing \$1,248,000 in marketable securities and purchasing equipment and paying for the construction of our new facilities in the amount of \$1,978,000. The investing activities in the three months ended September 30, 2011 consisted primarily of investing in short-term and long-term bank deposits and in marketable securities.

Financing activities generated cash of \$35,494,000 during the three months ended September 30, 2012, compared to \$323,000 for the three months ended September 30, 2011. Net proceeds from the public offering were \$34,106,000, as described below, and the rest of the cash generated in the three months ended September 30, 2012 and the cash generated in the three months ended September 30, 2011, from financing activities, is from exercises of warrants by shareholders and exercises of options by employees and consultants.

On September 19, 2012, we closed a firm commitment underwritten public offering of 8,000,000 units, at a purchase price of \$4.00 per unit, with each unit consisting of one share of our common stock and one warrant to purchase 0.35 shares of common stock, at a purchase price of \$5.00 per share. The warrants sold in the offering will be exercisable on March 19, 2013 and expire on September 19, 2017. We also granted the underwriters a 30-day option to purchase up to 1,200,000 shares of common stock and/or warrants to purchase up to 420,000 shares of common stock, which option was fully exercised. The aggregate net proceeds to our Company from the offering, including from the exercise in full of the option, were approximately \$34 million, before the exercise of any warrants (which has not yet occurred) and after deducting underwriting commissions and discounts and offering expenses of the Company.

During the past three months, 688,139 warrants were exercised in consideration for \$1,229,000, and 479,032 warrants were exercised on a cashless basis resulting in the net issuance of 287,483 shares of stock.

During the three months ended September 30, 2012, we received approximately \$474,000 from the OCS towards our research and development expenses. According to the OCS grant terms, we are required to pay royalties at a rate of 3% - 5% on sales of products and services derived from technology developed using this and other OCS grants until 100% of the dollar-linked grants amount plus interest are repaid. In the absence of such sales, no payment is required.

As of today, the currency of our financial portfolio is mainly in U.S. dollars and we use forward and options contracts in order to hedge our exposures to currencies other than the U.S. dollar.

We have accumulated a deficit of \$69,742,000 since our inception in May 2001. We do not expect to generate any revenues from sales of products in the next twelve months. Our products will likely not be ready for sale for at least three years, if at all. We expect to generate revenues, which in the short and medium terms will unlikely exceed our costs of operations, from the sale of licenses to use our technology or products, as we have in the United Agreement. Our management believes that we may need to raise additional funds before we have cash flow from

operations that can materially decrease our dependence on our existing cash and other liquidity resources. We are continually looking for sources of funding, including non-diluting sources such as the OCS grants. We have an effective shelf registration statement, which we used in connection with the offering mentioned above and may use in the future to raise additional funds.

We believe that we have sufficient cash to fund our operations for at least the next 12 months.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures - We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our CEO and our CFO, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting - There has been no change in our internal control over financial reporting during the first quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In August 2012 we granted 50,000 restricted stock units to a consultant for services rendered.

The above issuance and sale was exempt under Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits.

4.1* Warrant Agreement dated September 19, 2012, by and between the registrant and American Stock Transfer & Trust Company, LLC (including the form of Warrant certificate).

31.1* Rule 13a-14(a) Certification of Chief Executive Officer.

31.2* Rule 13a-14(a) Certification of Chief Financial Officer.

32.1** Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2** Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

101 **The following materials from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

*Filed herewith.

**Furnished herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLURISTEM THERAPEUTICS INC.

By: /s/ Zami Aberman
Zami Aberman, Chief Executive Officer
(Principal Executive Officer)
Date: November 6, 2012

By: /s/ Yaky Yanay
Yaky Yanay, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Date: November 6, 2012

8
