PLURISTEM LIFE SYSTEMS INC
Form 10QSB/A
November 28, 2003

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

Form 10-QSB

<R>/A</R>

(Mark One)

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

For the quarterly period ended **September 30, 2003**

[ ] 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 [X] 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 REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 22,558,483 common shares issued and outstanding as of November 7, 2003

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

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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 INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS OF SEPTEMBER 30, 2003

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
AS OF SEPTEMBER 30, 2003

IN U.S. DOLLARS

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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)

ember 30, 003 udited)	June 30, 2003
95,659	$ 507,337
11,528	10,281
07,187	517,618
17,208	19,837
31,581	123,252
16,617	333,887

972,593	$ 994,594
$ -	$ 26
54,101	123,409
95,827	132,564

1 par value:
00 shares as of September 30, 2003 and

22,558,483 and 21,833,000 as of

June 30, 2003, respectively

evelopment stage

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

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)

	Three Month Period Ended September 30,	Three Month Period Ended September 30,	Period From May 11, 2001 (Inception) Through September 30,
	2003		

	2002	2003
Research and development costs		

General and administrative expenses

In-process research and development
write-off

Financial expenses, net

Net loss

Basic and diluted net loss per share

Weighted average number of shares used in computing basic and diluted net loss per share:

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

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY
(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS
OF
CHANGES
IN
OF
STOCKHOLDERS'
EQUITY

In U.S. Dollars (except shares data)

eceipts on ccount f shares	Deficit accumulated during the development stage	Total Stockholders' Equity

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

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY
(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED
STATEMENTS
OF
CASH
FLOWS
(UNAUDITED)

In U.S. Dollars

	Three Month Period Ended September 30,

	Three Month Period Ended September 30,	Period From May 11, 2001 (Inception) Through September 30,
	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss			

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization

In-process research and development write-off

Increase in accounts receivable

Increase in trade payables

Increase (decrease) in other accounts payable and accrued expenses

Increase in accrued interest to related parties

Linkage differences and interest of long-term restricted lease deposit

Know-how licensors - amortization of discount

Net cash used in operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of Pluristem Ltd.

Purchase of property and equipment

Long-term restricted lease deposit

Purchase of Know-how

Net cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of common stock, net of issuance costs

Receipts on account of shares

Short-term bank credit

Proceeds from notes and loan payable to related parties

Repayments of notes and loan payable to related parties

Net cash provided by financing activities

Increase (decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the period

Cash and cash equivalents at the end of the period

Non-cash investing and financing information:

Unpaid know-how

Unamortized discount

Forgiveness of debt

Conversion of receipts on account of shares into common stock

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

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY
(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

NOTES TO
FINANCIAL
STATEMENTS
(UNAUDITED)

In U.S. Dollars

NOTE 1:-GENERAL

Pluristem Life Systems Inc. (the "Company"), a Delaware 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 in Israel, and began its activity in January 2003. The Company's activities are in the field of research and development of cord blood hematopoietic stem cells. Research and development is performed by the wholly owned subsidiary in Israel.

NOTE 2:-UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information. 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 three-month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended June 30, 2004.

NOTE 3:-SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual consolidated financial statements of the Company as of June 30, 2003 are applied consistently in these consolidated financial statements.

These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of June 30, 2003 and their accompanying notes.

NOTE 4:-GOING CONCERN

The Company is currently in the development stage. As of September 30, 2003 the company has positive stockholders' equity of approximately $470 thousand and a positive working capital of approximately $257 thousand, however, the Company had negative cash flow from operating activities of approximately $304 thousand and approximately $757 thousand during the three-month period ended September 30, 2003 and the period from inception through September 30, 2003, respectively, and accumulated losses of approximately $863 thousand since inception.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue operating is dependent upon an additional financial support until profitability is achieved. Management of the Company is actively looking to raise the required additional financial support, while applying cost saving measures to keep expenses aligned with defined budget.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. As noted above, the Company is in the development stage and, accordingly, has not yet generated a proven history of operations.

NOTE 5:- PROPERTY AND EQUIPMENT

Depreciation and amortization expenses amounted to $21,300 for the three-month period ended September 30, 2003.

NOTE 6:- SHARE CAPITAL

During the three-month ended September 30, 2003, the Company issued an aggregate of 725,483 common shares and 1,450,966 warrants to all the subscribers for total consideration of $1,235,759 (net of issuance costs of $70,110), under a private placement as described in Note 10 to the consolidated financial statements of the Company for the year ended June 30, 2003.

Item 2. Management's Discussion and Analysis and 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", "will", "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 expressed in United States dollars and all references to "common shares" refer to the common shares in our capital stock.

As used in this quarterly report, the terms "we", "us", "our", and "Pluristem" mean Pluristem Life Systems, Inc. and our wholly owned subsidiary, unless otherwise indicated.

Overview

You should read the following discussion of our financial condition and results of operations together with the unaudited financial statements and the notes to unaudited financial statements included elsewhere in this filing prepared in accordance with accounting principles generally accepted in the United States. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

From our inception on May 11, 2001 to May of 2003, we had been engaged in software development, premised on the use of artificial intelligence in computer programming technology and in many areas of the computer, Internet,

robotics, and games industries. In May 2003, our board of directors conducted an in-depth analysis of our business plan and related future prospects for software development companies. To better protect stockholder interests and provide future appreciation, it was decided to concurrently pursue initiatives in the biotech industry as an extension to our existing business. On May 5, 2003, we entered into a License Agreement with Weizmann Institute to Science and the Technion-Israel Institution of Technology to acquire an exclusive license for a stem cell expansion technology. To better develop this exclusively licensed technology, we purchased 100% of the issued and outstanding shares of Pluristem, Ltd. on June 10, 2003. Pluristem, Ltd. is a research and development company based in Israel. As of July 1, 2003, we have suspended our efforts to further develop artificial intelligence in computer programming.

Plan of Operations

Our primary objective over the twelve months ending September 30, 2004 will be to conduct further development and research on our proprietary technology - PluriX™ Bioreactor. In order to optimize the system, we will build new PluriX™ Bioreactors for laboratory use to examine all of its parts and their different functions. We will begin

feasibility studies of ex vivo expanded stem cells on animals. In addition, we intend to identify proteins that are involved with stem cell regulators.

Concurrently, we will initiate contact with research centers and cord blood banks to establish cooperative relations for future business development.

We intend to consult with an FDA advisor to assist us in determining our path in the process toward gaining FDA regulatory approval.

We have not generated any revenues and our operating activities have used cash resources of $304,217 for the three months ended September 30, 2003, compared to $15,864 for the three months ended September 30, 2002. This negative cash flow is attributable to the costs incurred in the acquisition of Pluristem, Ltd., the organization of our corporate structure and the payment of our audit fees and legal fees. We anticipate that our operating expenses will increase as we intend to conduct trials and experiments with our technology and work toward its commercialization. We estimate our expenses in the twelve months ending September 30, 2004 will be $1,089,000, generally falling in three major categories: research and development costs, purchase of in-process research and development and general and administrative expenses.

Research and Development Costs

For the twelve months ending September 30, 2004, we estimate that our research and development costs will be approximately $700,000. We intend to spend our research and development costs on optimizing the 3-D bioreactor operations, implanting stem cells from cord blood into the stromal cell cultures of PluriX™ bioreactors for expansion and on conducting studies on mice to examine stem cell development and expansion.

Costs Associated with Purchase of In-Process Research and Development

For the twelve months ending September 30, 2004, we estimate that our costs associated with purchased in-process research and development will be approximately $622,000. We intend to purchase in-process research and development from our subsidiary.

General and Administrative Expenses

For the twelve months ending September 30, 2004, we estimate that our general and administrative expenses will be approximately $388,000. These expenses will include office and miscellaneous charges, which consist primarily of charges incurred for purchase of office supplies and other administrative expenses. These expenses will also include professional fees, which consist primarily of accounting and auditing fees for the year end audit and legal fees for securities advice, directors liability insurance and cost of fundraising.

We do not expect to generate any revenues in the twelve month period ending September 30, 2004. Our products will not be ready for sale for up to three years.

In our management's opinion, we need to achieve the following events or milestones in the next twelve months in order for us to begin generating revenues as planned within three years:

- Raise equity or debt financing or a combination of equity and debt financing of at least $5,000,000.
- Build new bioreactors for continued research into bioreactor functionality in laboratory conditions.
- Optimize 3-D PluriX™ bioreactor operations - using the 3-D environment of the PluriX™, a dense population of stromal cells (support cells) has been reached to provide the basis for stem cell expansion without differentiation. The stromal cells release a signal to prevent differentiation. Optimization of the bioreactor system is a continuous process to enable the stem cells to self-renew while remaining in their original state.

- Studies to obtain an animal model. Trials will be conducted on SCID mice to examine the stem cell development and expansion process. "SCID mice" are mice without immune systems so that they can be used to simulate human immune systems.
- establish relations with research centers and cord blood banks.

Research and Development

During the three month period ended September 30, 2003, we continued our research activities in our clean rooms and laboratory. We built bioreactors to conduct research and development in a 3-D environment and seeded stromal cells into the bioreactors to produce the stromal cell culture where the stem cells will be implanted. Throughout this period and into 2004, we will continue with these R&D activities.

Purchase or Sale of Equipment

With the acquisition of Pluristem Ltd., we obtained much of the specialized laboratory equipment that we need to conduct our research. This equipment included incubators, freezers, computers, hot plates, generators, microscopes, and other equipment. We expect that we now own most of the laboratory equipment that we will need to conduct our planned research and development for the year ending June 30, 2004. Our only planned equipment purchases in the year ending June 30, 2004 are a FACS (Fluorescence Activated Cell Sorter) analysis machine and a customized incubator.

Going Concern

Due to our being a development stage company and not having generated revenues, in the consolidated financial statements for the year ended June 30, 2003, we included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our consolidated financial statements contain additional note disclosures describing the circumstances that lead to this disclosure.

The continuation of our business is dependent upon us raising additional financial support. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Recently Issued Accounting Standards

In June 2002, FASB finalized FAS 146, Accounting for Costs Associated with Exit or Disposal Activities. FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between this Statement and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by the Board in this Statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Therefore, this Statement eliminates the definition and requirements for recognition of exit costs in Issue 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability. The adoption of this statement is not expected to have a material impact on the Company's financial position and results of operations. FAS 146 is effective for exit and disposal activities initiated after December 31, 2002.

In December 2002, the Financial Accounting Standards Board Issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123", ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based

compensation. Additionally, SFAS 148 amends the disclosure requirements of SFAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosures when the intrinsic value method continues to be used. The statement is effective for fiscal years beginning after December 15, 2002, and disclosures are effective for the first fiscal quarter beginning after December 15, 2002. The Company will continue to use the intrinsic model method.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees and Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Recession of FASB Interpretation No. 34" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. It also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. The disclosure provisions of FIN No. 45 are effective for financial statements of interim or annual periods that end after December 15, 2003 and the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2003 irrespective of a guarantor's year-end. The Company does not expect the adoption of FIN No. 45 to have a material impact on its results of operations or financial position

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." 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. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31. 2003, and otherwise is effective at the beginning of the

first interim period beginning after June 15, 2003 except for mandatory redeemable financial instruments of nonpublic entities. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either 9a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure variable interest entity were established. As of June 30, 2003, the Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our unaudited financial statements and accompanying notes have been prepared in conformity with generally accepted accounting principles in the United States of America for interim financial statements. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financials.

Acquisition of technology rights

In the acquisition of stem cell expansion technology rights through the License Agreement, we considered whether these rights meet the criteria of an asset or should have been expensed. In our opinion, the PluriX™ Bio-reactor System and License Agreement technology, which are patent protected in certain jurisdictions and can be used for other applications as explained in Item 1, meet the criteria of an "Asset". We believe this technology will be in use for several years.

Going Concern

Our interim financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The interim financial statements have been prepared assuming we will continue as a going concern. However, certain conditions exist which raise doubt about our ability to continue as a going concern. We have suffered recurring losses from operations and have accumulated losses of approximately $863,357 since inception through the three months ended September 30, 2003.

RISK FACTORS

Much of the information included in this current report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the

direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

Our common shares are considered speculative during the development of our new business operations. Prospective investors should consider carefully the risk factors set out below.

Limited Operating History

Our company has a limited operating history and must be considered in the development stage. Our company's operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. No assurance can be given that we may be able to operate on a profitable basis.

The fact that we have not earned any revenues since our incorporation and we are a development stage company raises doubt about our ability to continue as a going concern.

We are in the development stage and have not generated any revenues since our inception. We will, in all likelihood, continue to incur operating expenses without significant revenues until we successfully develop and commercialise our technologies. Our primary source of funds has been the sale of our common stock. We cannot assure that we will be able to generate any significant revenues or income. These circumstances makes us dependent on additional financial support until profitability is achieved. There is no assurance that we will ever be profitable, and we had a going concern note as described in an explanatory paragraph to our consolidated financial statements for the year ended June 30, 2003.

Likelihood of Profit

Our securities must be considered highly speculative, generally because of the nature of our business and the early stage of its development. We are engaged in the business of developing and commercializing a technology and

device to expand hematopoietic stem cells outside of the human body without differentiation. Our technology is in the development stage and we have not begun the regulatory approval process for our technology and device. Accordingly, we have not realized a profit from our operations to date and there is little likelihood that we will realize any profits in the short or medium term. Any profitability in the future from our business will be dependent upon successful commercialization of our core technology, the PluriX™ Bioreactor system, which itself is subject to numerous risk factors as set forth herein.

Our inability to complete our product development activities successfully would severely limit our ability to operate or finance operations.

Commercialization of our core technology, the PluriX™ Bioreactor system, will require significant additional research and development as well as substantial clinical trials. We believe that the United States will be the principal market for our technology. We may not be able to successfully complete development of the PluriX™ Bioreactor system, or successfully market our technology. We, and any of our potential collaborators, may encounter problems and delays relating to research and development, regulatory approval and intellectual property rights of our technology. Our

research and development programs may not be successful, and our cell culture technology may not facilitate the production of cells outside the human body with the expected result. Our core technology may not prove to be safe and efficacious in clinical trials, and we may not obtain the intended regulatory approvals for our core technology and the cells produced in such products. Whether or not any of these events occur, we may not have adequate resources to continue operations for the period required to resolve the issue delaying commercialization and we may not be able to raise capital to finance our continued operation during the period required for resolution of that issue.

Lack of Financial Resources

Our ability to continue develop and, if warranted, commercialize our core technology, the PluriX™ Bioreactor system, will be dependent upon our ability to raise significant additional financing. If we are unable to obtain such financing, we will not be able to fully develop and commercialize our technology. Our future capital requirements will depend upon many factors, including:

- continued scientific progress in our research and development programs;
- costs and timing of conducting clinical trials and seeking regulatory approvals and patent prosecutions;
- competing technological and market developments;
- our ability to establish additional collaborative relationships; and
- the effect of commercialization activities and facility expansions if and as required.

We have limited financial resources and to date, no cash flow from operations and we are dependent for funds on our ability to sell our common shares, primarily on a private placement basis. There can be no assurance that we will be able to obtain financing on that basis in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. The method of financing employed by us to date results in increased dilution to the existing shareholders each time a private placement is conducted.

Failure to obtain and maintain required regulatory approvals would severely limit our ability to commercialize our technology.

We believe that we must obtain the approval of the FDA before commercialization of our technology may commence in the United States, which we believe will be the principal market for our technology. We may also be required to obtain additional approvals from foreign regulatory authorities to continue or increase our sales activities in those jurisdictions. If we cannot demonstrate the safety, reliability and efficacy of our technology, or of the cells produced in our technology, including long-term sustained engraftment, or if one or more patients die or suffer

severe complications in future clinical trials, the FDA or other regulatory authorities could delay or withhold regulatory approval of our technology.

Finally, even if we obtain regulatory approval of our technology, that approval may be subject to limitations on the indicated uses for which it may be marketed. Even after granting regulatory approval, the FDA, other regulatory agencies, and governments in other countries continue to review and inspect marketed products, manufacturers and manufacturing facilities. Later discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product or manufacturer, including a withdrawal of the product from the market. Further, governmental regulatory agencies may establish additional regulations which could prevent or delay regulatory approval of our technology.

Even if we obtain regulatory approvals to commericialize our technology, lack of commercial acceptance would impair our business.

Our product development efforts are primarily directed toward obtaining regulatory approval to market the PluriX™ Bioreactor system as an alternative to, or as an improvement for, the bone marrow harvest and peripheral blood progenitor cell stem cell collection methods. These stem cell collection methods have been widely practiced for a number of years, and our technology may not be accepted by the marketplace as readily as these or other competing processes and methodologies. Additionally, our technology may not be employed in all potential applications being investigated, and any reduction in applications would limit the market acceptance of our technology and our potential revenues. As a result, even if we obtain all required regulatory approvals, we cannot be certain that our technology will be adopted at a level that would allow us to operate profitably.

If we do not keep pace with our competitors and with technological and market changes, our technology may become obsolete and our business may suffer.

The market for our technology is very competitive, is subject to rapid technological changes and varies for different individual products. We believe that there are potentially many competitive approaches being pursued in competition to our technology, including some by private companies for which information is difficult to obtain.

Many of our competitors have significantly greater resources, more product candidates and have developed product candidates and processes that directly compete with our technology. Our competitors may have developed, or could in the future develop, new technologies that compete with our technology or even render our technology obsolete. Our technology is designed to improve and automate the processes for producing cells used in therapeutic procedures. Even if we are able to demonstrate improved or equivalent results, researchers and practitioners may not use our technology and we will suffer a competitive disadvantage. As a result, we may be unable to recover the net book value of our inventory. Finally, to the extent that others develop new technologies that address the targeted application for our current technology, our business will suffer.

Dependence on Key Personnel/Employees

We are dependent on our ability to hire and retain highly qualified scientific and management personnel, including our President, Dr. Irit Arbel and the founder and Chief Technology Officer of Pluristem, Ltd., Dr. Shai Meretzki. We face competition for qualified personnel from numerous industry sources, and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. The loss of service of any of our key personnel could have a material adverse effect on our operations or financial condition.

If our patents and proprietary rights do not provide substantial protection, then our business and competitive position will suffer.

Our success depends in large part on our ability to develop or license and protect proprietary technology. However, patents may not be granted on any of our pending or future patent applications. Also, the scope of our issued patent may not be sufficiently broad to offer meaningful protection. In addition, the patent licensed to us could be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier. Furthermore, we rely on an exclusive, world-wide license relating to the production of human

cells granted to us by the Weizmann Institute of Science and Technion-Israel Institute of Technology for certain of our patent rights. If we materially breach such agreement or otherwise fail to materially comply with such agreement, or if such agreement expires or is otherwise terminated by us, we may lose our rights under the patent held by the Weizmann Institute of Science and Technion-Israel Institute of Technology. At the latest, the license will terminate when the patent underlying the license expires. The underlying patents will expire in approximately 2020. We also rely on trade secrets and unpatentable know-how that we seek to protect, in part, by confidentiality agreements with our employees, consultants, suppliers and licensees. These agreements may be breached, and we might not have

adequate remedies for any breach. If this were to occur, our business and competitive position would suffer.

Intellectual property litigation could harm our business.

Our success will also depend in part on our ability to develop commercially viable products without infringing the proprietary rights of others. Although we have not been subject to any filed infringement claims, other patents could exist or could be filed which would prohibit or limit our ability to market our products or maintain our competitive position. In the event of an intellectual property dispute, we may be forced to litigate. Intellectual property litigation would divert management's attention from developing our technology and would force us to incur substantial costs regardless of whether we are successful. An adverse outcome could subject us to significant liabilities to third parties, and force us to curtail or cease the development and commercialization of our technology.

Potential product liability claims could affect our earnings and financial condition.

We face an inherent business risk of exposure to product liability claims in the event that the use of the PluriX™ Bioreactor system during research and development efforts, including clinical trials, or after commercialization results in adverse affects. As a result, we may incur significant product liability exposure, which could exceed existing insurance coverage. We may not be able to maintain adequate levels of insurance at reasonable cost and/or reasonable terms. Excessive insurance costs or uninsured claims would increase our operating loss and affect our financial condition.

"Penny Stock" Rules May Restrict the Market for the Company's Shares

Our shares of common stock are subject to rules promulgated by the Securities and Exchange Commission relating to "penny stocks," which apply to companies whose shares are not traded on a national stock exchange or on the NASDAQ system, trade at less than $5.00 per share, or who do not meet certain other financial requirements specified by the Securities and Exchange Commission. These rules require brokers who sell "penny stocks" to persons other than established customers and "accredited investors" to complete certain documentation, make suitability inquiries of investors, and provide investors with certain information concerning the risks of trading in the such penny stocks. These rules may discourage or restrict the ability of brokers to sell our shares of common stock and may affect the secondary market for our shares of common stock. These rules could also hamper our ability to raise funds in the primary market for our shares of common stock.

Possible Volatility of Share Prices

Our shares of common stock are currently publicly traded on the Over-the-Counter Bulletin Board service of the National Association of Securities Dealers, Inc. The trading price of our shares of common stock has been subject to wide fluctuations. Trading prices of our shares of common stock may fluctuate in response to a number of factors, many of which will be beyond our control. The stock market has generally experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies with no current business operation. There can be no assurance that trading prices and price earnings ratios previously experienced by our shares of common stock will be matched or maintained. These broad market and industry factors may adversely affect the market price of our shares of common stock, regardless of our operating performance.

In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted. Such litigation, if instituted, could result in substantial costs for us and a diversion of management's attention and resources.

Our Principal Research and Development Facilities are Located in Israel, which Has Historically Experienced Military and Political Unrest.

Our principal research and development facilities are located in Israel. As a result, we are directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could significantly harm our business, operating results and financial condition.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and, since September 2000, involving the Palestinian population, and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel and companies based in Israel. Acts of random terrorism periodically occur which could affect our operations or personnel. In addition, Israeli-based companies and companies doing business with Israel, have been the subject of an economic boycott by members of the Arab League and certain other predominantly Muslim countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, the Company cannot predict whether or in what manner these problems will be resolved. Also, since the end of September 2000, there has been a marked increase in the level of terrorism in Israel, which has significantly damaged both the Israeli economy and levels of foreign and local investment.

In addition, certain of our officers and employees may be obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called up for active military duty at any time. All Israeli male citizens who have served in the army are subject to an obligation to perform reserve duty until they are between 45 and 54 years old, depending upon the nature of their military service.

Indemnification of Directors, Officers and Others

Our by-laws contain provisions with respect to the indemnification of our officers and directors against all expenses (including, without limitation, attorneys' fees, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that the person is one of our officers or directors) incurred by an officer or director in defending any such proceeding to the maximum extent permitted by Nevada law.

Insofar as indemnification for liabilities arising under the *Securities Act of 1933* may be permitted to directors, officers and controlling persons of our company under Nevada law or otherwise, we have been advised the opinion of the Securities and Exchange Commission is that such indemnification is against public policy as expressed in the *Securities Act of 1933* and is, therefore, unenforceable.

Because some of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against the management for misconduct and may not be able to enforce judgement and civil liabilities against our officers, directors, experts and agents.

All of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state.

Future Dilution

Our constating documents authorize the issuance of 1,400,000,000 shares of common stock, each with a par value of $0.00001. In the event that we are required to issue any additional shares or enter into private placements to raise

financing through the sale of equity securities, investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. If we issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change in our control.

Anti-Takeover Provisions

We do not currently have a shareholder rights plan or any anti-takeover provisions in our By-laws. Without any anti-takeover provisions, there is no deterrent for a take-over of our company, which may result in a change in our management and directors.

Government Regulation/Administrative Practices

There is no assurance that the laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in the United States or any other jurisdiction, will not be changed, applied or interpreted in a manner which will fundamentally alter the ability of our company to carry on our business.

The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect the Company. Any or all of these situations may have a negative impact on one or more of the Company's ability to operate and/or its profitably.

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the three-month period ended September 30, 2003. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's chairman and chief financial officer. Based upon that evaluation, our company's chairman and chief financial officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's chairman and chief financial as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We know of no material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder are an adverse party or has a material interest adverse to us.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

On August 14, 2003 we appointed Prof. Jacob Rowe, F.A.C.P. as Chairman of our Scientific Advisory Board.

Prof. Rowe is presently Chief of the Department of Hematology and Bone Marrow Transplantation at Rambam Medical Center in Haifa, Israel. Concurrently, he is a Professor of Hemato-Oncology/Bruce Rappaport Faculty of Medicine, at Technion, Israel Institute of Technology in Haifa, Israel; former Adjunct Professor of Medicine at the University of Rochester School of Medicine and Dentistry in Rochester, NY and a Visiting Professor at Northwestern University in Chicago, IL.

Among many significant hospital and administrative appointments, Prof. Rowe is a member of the American Society of Hematology (ASH); the Appeals Committee, Hematology for the Israel Ministry of Health; a member of the Hematology Committee, Scientific Council for the Israel Medical Association; a member of the National Oncology Council, Sub-committee on Bone Marrow Transplantation, National Oncology Council, Israel; American Society for Blood and Marrow Transplantation. He has also served as Chairman of the Eastern Cooperative Oncology Group, Leukemia Committee, Bone Marrow Transplantation Core Committee. Additionally, at Strong Memorial Hospital, Prof. Rowe was a member of the Blood Utilization Committee, House Officer Advisory Committee, Infection Control Committee, Chairman of the Task Force on Implementation of Bone Marrow Transplantation, Director of Clinical Services, Hematology Unit, and Acting Director - Bone Marrow Transplantation Program.

Prof. Rowe has conducted research and clinical trials in blood related malignancies utilizing grants from the National Institute of Health (NIH) and the National Cancer Institute (NCI) and holds a number of Faculty appointments at leading teaching medical institutions.

He is a graduate of the University College of Medicine in London. Prof. Rowe was granted an B.Sc. in Pharmacology form the University College of London (first class honors) in 1972 and an M.B., B.S. from the University College Hospital Medical School in Clinical Medicine in 1975.

On September 30, 2003, we signed R&D cooperation agreements with major medical institutions in Israel. In the framework of the agreements, the medical institutions will provide us with Cord Blood (CB) to further the development of our proprietary stem cell expansion technology. The obtaining of CB is sanctioned under the World Medical Association Declaration of Helsinki, a statement of ethical principles which provides guidance on medical research involving human subjects.

The need for stem cells in bone marrow transplantations increases daily for a number of life threatening diseases including leukemia, non-Hodgkin's lymphoma (NHL), other blood born maladies. The CB obtained will be utilized to further our research in stem cell expansion without differentiation. Stem cells will be extracted from the CB and expanded within the PluriX(TM) Plug Flow Bioreactor system. The PluriX(TM) system contains 3-D high density stromal cells culture which is intended to closely replicate the natural environment of human bone marrow, allowing

hematopoietic (normally formed and developed blood cells in the bone marrow) stem cell expansion without differentiation.

On October 9, 2003, our board of directors increased the number of current directors from three to six and appointed Doron Shorrer, Hava Klemperer Meretzki and Robert J. Pico as directors to the board of directors.

Doran Shorrer, ISR (CPA) was Chairman of the Board of Phoenix Insurance Company, one of the largest insurance companies in Israel and Mivtachim Pension Benefit Group, the largest pension fund in Israel. Prior to these positions, Mr. Shorrer held senior appointments that included Arbitrator at the Claims Resolution Tribunal for Dormant Accounts in Switzerland; Economic and Financial Advisor, Commissioner of Insurance and Capital Markets for the State of Israel; Member of the Board of Directors of "Nechasim" of the State of Israel; Member

Committee for the Examination of Structural Changes in the Capital Market (The Brodet Committee); General Director of the Ministry of Transport; Co-Founder and Director of an accounting firm with offices in Jerusalem, Tel-Aviv and Haifa; Member of the Lecture Staff of the Amal School Chain; Chairman of a Public Committee for Telecommunications; and Economic Consultant to the Ministry of Energy.

Among many areas of expertise, Mr. Shorrer formulates, implements and administers business planning in the private and institutional sector in addition to consulting on economic, accounting and taxation issues to a large audience ranging from private concerns to government ministries. Mr. Shorrer holds a B.A. in Economics and Accounting and an M.A. in Business Administration (specialization in finance and banking) from the Hebrew University of Jerusalem and is a Certified Public Accountant (ISR).

Hava Klemperer Meretzki, Adv. is a partner in the law firm of Ben-Noun Meretzki in Haifa, Israel. Ms. Meretzki specializes in civil, trade and labor law and is presently Vice-Chairman for the National Council of the Israel Bar Association. Ms. Meretzki previously was a Director of the Israel Electric Company. Ms. Meretzki received a Bachelors Degree in Law from the Hebrew University in 1991, and in 1992 was admitted to the Israel Bar Association.

Robert J. Pico is presently Vice President of Business Development at TranSwitch Corporation (NASDAQ:TXCC). Mr. Pico leads all M&A activities and initialization of start-up companies through seed funding for companies that include: Teraop, Optix, IC41C, Onex (acquired by TXCC), SOSI (acquired by TXCC). Mr. Pico additionally invests on behalf of TranSwitch in companies that demonstrate significant growth opportunities including Accordian Networks. Mr. Pico performs all contract negotiations for TranSwitch when acquiring third party intellectual property such as VLSI cell libraries and semiconductor foundry service contracts from suppliers such as Texas Instruments (NYSE:TXN), TSMC in Taiwan and LSI Logic (NYSE:LSI). Mr. Pico has led the TranSwitch team consummating more than 10 acquisitions and formation of start-up companies spanning Israel, North America, Europe, and Asia. Mr. Pico is a Board member of several of these companies. Mr. Pico joined TranSwitch in 1988 and assisted in its public offering in 1995 on the NASDAQ Exchange.

Mr. Pico has a breadth of corporate management expertise spanning engineering, operations and business development. Prior to his tenure at TranSwitch he held senior positions in both large multi-national corporations such as ITT and United Technologies. Mr. Pico holds a BSEE and MS in Physics from the University of Hartford and Trinity College respectively and has completed his requirements for an MBA in Marketing from the University of Hartford.

Item 6. Exhibits and Reports on Form 8-K.

Exhibits required by Item 601 of Regulation S-B

(3) Articles of Incorporation and Bylaws

3.1 Articles of Incorporation (incorporated by reference to the Company's SB2 Registration Statement filed September 10, 2001).

3.2 Bylaws (incorporated by reference to the Company's SB2 Registration Statement filed September 10, 2001).

3.3 Restated Bylaws. <R>(incorporated by reference to the Company's Quarterly Report on Form 10-QSB filed November 19, 2003)</R>

(10) Material Contracts

10.1 Software Development Agreement (incorporated by reference to the Company's SB2 Registration Statement filed September 10, 2001).

10.2 Exclusive, World Wide Patent and Technology License and Assignment Agreement (incorporated by reference to the Company's Form 8-K Current Report filed May 6, 2003).

(21) Subsidiaries

Pluristem, Ltd.

(31) Section 302 Certifications

31.1 Section 302 Certification <R>(incorporated by reference to the Company's Quarterly Report on Form 10-QSB filed November 19, 2003)</R>

31.2 Section 302 Certification <R>(incorporated by reference to the Company's Quarterly Report on Form 10-QSB filed November 19, 2003)</R>

(32) Section 906 Certification

32.1 Section 906 Certification <R>(incorporated by reference to the Company's Quarterly Report on Form 10-QSB filed November 19, 2003)</R>

(99) Additional Exhibits

99.1 Certificate of Stock Split filed with Nevada Secretary of State on March 31, 2003 (incorporated by reference to the Company's Form 8-K Current Report filed April 8, 2003).

Reports on Form 8-K

On July 1, 2003, on Item 5, reporting the change of name from "A.I. Software, Inc." to "Pluristem Life Systems, Inc."

On July 8, 2003, on Item 4, reporting the dismissal of the Company's certifying accountants, Marc Lumer & Company, Certified Public Accountants and Management Consultants, and the engagement of, Ernst & Young, Israel as the Company's principal independent accountants.

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 LIFE SYSTEMS, INC.

Date: November 28, 2003	/s/ Irit Arbel Irit Arbel, President and CEO (On behalf of the Registrant and as Principal Executive Officer)
Date: November 28, 2003	/s/ Harvey Lawson Harvey Lawson, Chief Financial Officer and Director (On Behalf of the Registrant and as Principal Financial Officer)