PLURISTEM LIFE SYSTEMS INC
Form 10QSB
May 25, 2004

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

Form 10-QSB

(Mark One)

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

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

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

For the transition period from __________ to __________

Commission file number **001-31392**

PLURISTEM LIFE SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada	98-0351734
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

MATAM Advanced Technology Park, Building No. 20, Haifa, Israel 31905

(Address of principal executive offices)

011-972-4-850-1080

(Issuer's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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 ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 26,558,483 common shares issued and outstanding as of May 6, 2004

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

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 MARCH 31, 2004

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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 MARCH 31, 2004

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 stock data)	

			March 31,		June 30,

			2004		2003
			(Unaudited)		(Audited)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents			$ 879,097		$ 507,337
Accounts receivable			47,984		10,281
Prepaid expenses (see Note 3c)			516,570		-
Total current assets			1,433,651		517,618
LONG-TERM RESTRICTED LEASE DEPOSIT			18,422		19,837
SEVERANCE PAY FUND			26,909		-
PROPERTY AND EQUIPMENT, NET			217,924		123,252
INTANGIBLE ASSET					
Know-how, net			282,077		333,887
Total assets			$ 1,988,983		$ 994,594
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					

Short-term bank credit			$ 1,458		$ 26
Current maturities know how licensors			100,000		-
Trade payables			232,081		123,409
Other accounts payable and accrued expenses			138,990		132,564
Total current liabilities			472,529		255,999
LONG-TERM LIABILITIES					
Know-how licensors, net of current maturities			166,045		248,178
Liability in respect of Warrants (See Note 3b)			1,230,000		-
Accrued severance pay			29,221		-
			1,425,266		248,178
STOCKHOLDERS' EQUITY					
Capital Stock:					
Common stock $0.00001 par value: Authorized: 1,400,000,000 stocks as of March 31, 2004 and June 30, 2003; Issued and Outstanding: 26,558,483 (unaudited) and 21,833,000					
as of March 31, 2004 and June 30, 2003, respectively			265		218
Additional paid-in capital			2,423,397		97,633
Receipts on account of stock			-		933,464
Deficit accumulated during the development stage			(2,332,474)		(540,898)
			91,188		490,417

			$ 1,988,983		$ 994,594

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 stock and per stock data)	

		Nine Months Ended March 31,				Three Months Ended March 31,				Period from May 11, 2001 (Inception) through March 31,
		2004		2003		2004		2003		2004
Research and development costs		$ 712,598		$ 27,000		$ 251,727		$ -		$ 846,469
General and administrative expenses		1,098,404		17,662		885,322		6,919		1,248,476
In-process research and development write-off		-		-		-		-		246,470

		1,811,002		44,662		1,137,049		6,919		2,342,415
Financial (income) expenses, net		(19,426)		2,577		(38,555)		18		(9,941)
Net loss for the period		$ 1,791,576		$ 47,239		$ 1,098,494		$ 6,937		$ 2,332,474
Basic and diluted net loss per stock		$ (0.076)		$ (0.001)		$ (0.043)		$ (0.0001)		
Weighted average number of stocks										
used in computing basic and diluted										
net loss per stock:		23,508,820		47,266,836		25,580,705		45,493,000		

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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 (DEFICIENCY)	
In U.S. Dollars (except stock data)	

	Common Stock		Additional paid-in	Receipts on account	Deficit accumulated during the development	Total Stockholders' Equity
	Stocks	Amount	capital	of stocks	stage	(Deficiency)
Balance as of May 11, 2001						
(date of incorporation)	-	$ -	$ -	$ -	$ -	$ -
Issuance of common stock on						
July 9, 2001	35,000,000	350	2,150	-	-	2,500
Balance as of June 30, 2001	35,000,000	350	2,150	-	-	2,500

Loss for the year ended June 30, 2002	-	-	-	-	(77,903)	(77,903)
Balance as of June 30, 2002	35,000,000	350	2,150	-	(77,903)	(75,403)
Issuance of common stock						
On October 14, 2002, net of Issuance costs of $17,359	14,133,000	141	83,450	-	-	83,591
Forgiveness of debt	-	-	11,760	-	-	11,760
Stocks cancelled on March 19, 2003	(27,300,000)	(273)	273	-	-	-
Receipts on account of stocks and warrants, net of issuance costs of $56,540	-	-	-	933,464	-	933,464
Loss for the year ended June 30, 2003	-	-	-	-	(462,995)	(462,995)
Balance as of June 30, 2003	21,833,000	$ 218	$ 97,633	$ 933,464	$ (540,898)	$ 490,417

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 (DEFICIENCY)	
In U.S. Dollars (except stock data)	

	Common Stock		Additional paid-in capital	Receipts on account of stocks	Deficit accumulated during the development stage	Total Stockholders' Equity (Deficiency)
	Stocks	Amount				
Balance as of June 30, 2003	21,833,000	$ 218	$ 97,633	$ 933,464	$ (540,898)	$ 490,417
Issuance of common stock on						
July 16, 2003, net of						

issuance						
costs of $70,110	725,483	7	1,235,752	(933,464)	-	302,295
Issuance of common stock on						
January 20, 2004, net of						
issuance costs of $227,210 (See Note 3b)	3,000,000	30	-	-	-	30
Stock based compensation related						
to restricted stock granted to consultants on February 11, 2004	1,000,000	10	799,990	-	-	800,000
Stock based compensation related						
to stock options granted to consultants on December 30, 2003	-	-	290,022	-	-	290,022
Loss for the nine months						
ended March 31, 2004	-	-	-	-	(1,791,576)	(1,791,576)
Balance as of March 31, 2004	$ 26,558,483	$ 265	$ 2,423,397	$ -	$ (2,332,424)	$ 91,188

(unaudited)							

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	

	Nine Months Ended March 31,				Period from May 11, 2001 (Inception) through March 31,
	2004		2003		2004
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss			$ (47,239)		$ (2,332,474)

	$ (1,791,576)				
Adjustments required to reconcile net loss to net cash used in operating activities:					
Depreciation and know-how amortization	66,796		-		85,057
Stock based compensation to consultants	290,022		-		290,022
In-process research and development write-off	-		-		246,470
Know-how licensors - imputed interest	17,867		-		20,645
Increase in accounts receivable	(37,703)		-		(39,148)
Decrease in prepaid expenses	283,430		-		283,430
Increase in trade payables	108,672		-		222,674
Increase (decrease) in other accounts payable and accrued expenses	6,426		15,446		(287,589)
Increase in accrued interest to related parties	-		-		3,450
Linkage differences and interest of long-term restricted					
lease deposit	337		-		(693)
Fair value differences of warrants issued	(42,760)		-		(42,760)
Accrued severance pay, net	2,312		-		2,312
Net cash used in operating activities	(1,096,177)		(31,793)		(1,548,604)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of Pluristem Ltd.	-		-		31,899
Purchase of property and equipment	(109,658)		-		(109,658)
Long-term restricted lease deposit	1,078		-		1,078
Purchase of know-how	-		-		(100,000)

Net cash used in investing activities	(108,580)		-		(176,681)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Issuance of common stock, net of issuance costs	302,325		-		388,416
Issuance of warrants	1,272,760		-		1,272,760
Receipts on account of stocks	-		100,950		933,464
Short-term bank credit, net	1,432		-		1,432
Proceeds from notes and loan payable to related parties	-		(69,885)		78,195
Repayments of notes and loan payable to related parties	-		-		(69,885)
Net cash provided by financing activities	1,576,517		31,065		2,604,382
Increase (decrease) in cash and cash equivalents	371,760		(728)		879,097
Cash and cash equivalents at the beginning of the period	507,337		961		-
Cash and cash equivalents at the end of the period	$ 879,097		$ 233		$ 879,097

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	

	Nine Months Ended March 31,				Period from May 11, 2001 (Inception) through March 31,
	2004		2003		2004
Non-cash investing and financing information:					
Unpaid know-how	$ -		$ -		$ 300,000
Unamortized discount	$ -		$ -		$ 54,600
Forgiveness of debt	$ -		$ -		$ 11,760
Conversion of receipts on account of stocks into common stock	$ -		$ -		$ 933,464
Issuance of stock to consultants	$ 800,000		$ -		$ 800,000

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 CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars

NOTE 1:- GENERAL

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

b. The Company is devoting substantially all of its efforts towards conducting research and development of critical cell expansion services to cord blood banks. In the course of such activities, the Company and its subsidiary have sustained operating losses and expect such losses to continue in the foreseeable future. The Company and its subsidiary have not generated any revenues or product sales and have not achieved profitable operations or positive cash flows from operations. The Company's deficit accumulated during the development stage aggregated to approximately $2,300 thousand through March 31, 2004. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis.

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

As of March 31, 2004 the Company had a balance of $879 thousands in cash and cash equivalents and positive working capital of approximately $961 thousand. However, the Company has not generated revenues and had negative cash flows from operating activities of approximately $1,096 thousand and approximately $1,549 thousand during the nine-month period ended March 31, 2004 and the period from inception through March 31, 2004, respectively.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue operations is dependent upon an additional financial support until profitability is achieved.

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.

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars

NOTE 1:- GENERAL (continued)

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. 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, in addition to EITF 96-18 and EITF 00-19 as described in Note 3b and Note 3e, respectively, and the accounting for stock based compensation, as set forth in Note 2b.

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

b. Accounting for stock based compensation:

The Company's Board of Directors has adopted an Employee Stock Option Plan. (See Note 3.d).

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

The Company adopted the disclosure provisions of Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-Based Compensation - transition and disclosure" ("SFAS No. 148"), which amended certain provisions of Financial Accounting Standards Board Statement No. 123 ("SFAS 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, effective as of the beginning of the fiscal year. The Company continues to apply the provisions of APB No. 25, in accounting for stock-based compensation.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

Pro forma information regarding the Company's net loss and net loss per stock as required by SFAS 123 has been determined as if the Company had accounted for its stock options under the fair value method prescribed by SFAS No. 123.

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

Volatility H.92

Average risk-free interest rate L.2%

Average expected life (in years) I0

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

		Nine months ended		Three months ended		Period from May 11, 2001 (Inception) through
		March 31,		March 31,		March 31,
		2004		2004		2004
Net loss available to Common stock - as reported		$ (1,754,146)		$(1,061,064)		$ (2,295,044)
Add - stock based employee compensation - intrinsic value		-		-		-
Deduct - stock-based employee compensation - fair value		(109,885)		(109,885)		(109,885)
Pro forma net loss		$ (1,864,031)		$(1,170,949)		$ (2,404,929)
Earning per stock:						
Basic and diluted net loss per stock as reported		$ (0.075)		$(0.041)		
Basic and diluted pro forma net loss per stock		$ (0.079)		$(0.046)		

The Company applies SFAS No. 123 and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in conjunction with selling, goods or Services" ("EITF 96-18"), with respect to options and warrants issued to non-employees. SFAS No. 123 requires the use of option valuation models to measure the fair value of the options and warrants at the date of grant.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Impact of recently issued accounting standards

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, if any.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46") (revised in December 17, 2003). 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 (a) 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 December 15, 2004. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after March 15, 2004 Certain of the disclosure variable interest entity were established. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations, if any.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars (except stock data)

NOTE 3:- CAPITAL STOCK

a. In July 2003, the Company issued an aggregate of 725,483 units comprised of 725,483 common stock and 1,450,966 warrants to a group of investors, for total consideration of $1,235,752 (net of issuance costs of $70,110), under a private placement.

In this placement each unit was comprised of one common stock and two warrants, the first warrant is exercisable for one common stock at a price of $2.25 per stock, and may be exercised within one year. The second warrant is exercisable for one common stock at a price of $2.70 per stock, and may be exercised within five years.

b. On January 20, 2004, the Company consummated a private equity placement. The Company issued 3,000,000 units in consideration for net proceeds of $1,272,760 (net of issuance costs of $227,210), each unit comprised of 3,000,000 common stock and 3,000,000 warrants to a group of investors (the "investors"). Each warrant is exercisable for one common stock at a price of $0.75 per stock, and may be exercised until January 31, 2007. If the price of the common stock will be more than $1 within 10 consecutive trading days, then 1,500,000 warrants are forcible exercised. In case the Company had failed to register the above mentioned stock and the related stock resulting from the exercise of the warrants, it would have been subject to penalties by the investors as detailed in the private placement agreement. Up to March 31, 2004, the Company fulfilled all of its obligations in that respect and the above stocks have been registered for trading, under the registration statement on Form SB-2. If the effectiveness of the Registration Statement is suspended subsequent to the effective date of registration (March 18, 2004), for more than certain permitted periods, the Company shall pay penalties to the investors in respect of the liquidated damages.

According to EITF 00-19, "Accounting for derivative financial instruments indexed to, and potentially settled in, a Company's own stock" contracts, including among others, all options and warrants, that require net-cash settlement should be considered assets or liabilities and measured at fair value. Changes in the fair value of the contract shall be reported in earnings as long as the contract remains classified as asset or liability.

Accordingly, the Company has allocated an amount of $1,272,760 and $1,230,000 to the warrants issued, based on their fair value as of January 20, 2004 and March 31, 2004, respectively. The fair value was estimated using Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.9% divided, yield of 0%, volatility of 0.92, and average expected life of 3 years.

The change in the fair value of the warrants in the period from the grant date until the balance sheet date amounts to approximately $42,760 which was recognized in the statements of operations as financial income.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars (except stock data)

NOTE 3:- STOCK CAPITAL (continued)

In addition, the Company issued 300,000 warrants to finders in connection with this private placement. On April 19, 2004, the finders resolved to exercise the warrants to purchase 300,000 stocks at a price of $0.75 per stock.

According to the Company's Registration Rights Agreement, as described in the Registration statement, the Company is obligated to adjust the exercise price of the above mentioned warrants and to issue the investors additional shares if the Company enters into certain transactions, such as sale of its common stock to a third party on any date which is earlier than 180 days after the effective date of registration.

c. Following the Board resolutions and authorizations from January 28, 2004 the Company issued on February 11, 2004, an aggregate of 1,000,000 common stock to a number of consultants and service providers as compensation for carrying out investor relations activities during the year 2004.

Total compensation, measured at grant date, related to the stock amounts to $800,000. As of March 31, 2004, an amount of $360,000 was recognized as expenses and the remainder in the amount of $440,000 is presented as prepaid expenses.

d. Employee Stock Option Plan ("ESOP")

Under the Company's 2003 Stock Option Plan (the "Plan"), options may be granted to officers, directors, employees and consultants of the Company or its subsidiaries.

Pursuant to the Plan, the Company reserved for issuance 4,100,000 of its common stock. As of March, 2004, 454,220 common stock (including warrants) of the Company are still available for future grant under the plan.

Each option granted under the Plan is exercisable until the earlier of two years from the date of grant of the option or the expiration dates in the year 2013. The exercise price of the options granted under the plan may not be less than the nominal value of the stock into which such options are exercised. The options vest primarily over two years. Any options, which are canceled or forfeited before expiration, become available for future grants.

On December 2003, the Company granted 2,976,591 options to employees and directors at an exercise price of $0.76. Weighted average fair value of options granted whose exercise price is higher than the fair value of the stock on the grant date was 0.29.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
In U.S. Dollars (except stock data)

NOTE 3:- STOCK CAPITAL (continued)

e. Warrants issued to consultants:

In the framework of the stock option plan, the Company issued on December 30, 2003, warrants to three consultants, for carrying out investor relations activities over a period of two years.

The Company's outstanding warrants to consultants as of March 31, 2004 are as follows:

Issuance date	Outstanding as of March 31, 2004	Warrants exercisable as of March 31, 2004	Exercise price per stock	Exercisable Through
December 2003	250,000	104,170	$ 1.00	May 2013
December 2003	250,000	104,170	$ 1.25	May 2013
December 2003	169,189	105,750	$ 0.76	Jan. 2013
	669,189	314,090		

The options are exercisable commencing from the year 2005 and through the year 2013.

The Company has accounted for its warrants to consultants under the fair value method of SFAS 123 and EITF 96-18. The fair value for these warrants was estimated using Black-Scholes option-pricing model with the following weighted-average assumptions for March 31, 2004 as follows: risk-free interest rates of 4.2%, dividend yield of 0%, volatility of 0.92, and a weighted-average contractual life of the warrants of up to 10 years. Compensation expenses of approximately $290,000 were recognized during the nine-month period ended March 31, 2004. The Company will remeasure the fair value of these stock options during the service period as required by EITF 96-18.

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

FORWARD LOOKING STATEMENTS

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

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

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

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

Liquidity and Capital Resources

During the nine months ended March 31, 2004, we incurred a net loss of $1,791,576, as compared to a net loss of $47,239 in the nine month period to March 31, 2003. For the three months ended March 31, 2004 we incurred a loss of $1,098,494 compared to a loss of $6,937 in the three months ended March 31, 2003. This resulted from the change of business that we undertook in May, 2003, to become a medical product research and development company.

We incurred $885,322 in general and administrative expenses for the three months ended March 31, 2004. Of this amount, $650,000 was paid as stock based compensation to consultants and service providers in addition to $75,000 paid in cash to investor relations providers.

We obtained funds to carry on our business from a private placement we conducted in July, 2003, which raised net proceeds of $1,235,752 through the issuance of 725,483 units comprising one common share and two common share purchase warrants.

On January 20, 2004, we closed a private placement for gross proceeds of $1,500,000 through the issuance of 3,000,000 units, each unit comprising one common share and one common share purchase warrant. The net proceeds of this private placement of approximately $1,272,760 after payment of commissions and legal costs will be used to fund our operations for the coming year. We expect that we have sufficient funds to operate until early fall, 2004 but we will have to raise additional funds from the market before we have any cash flow from operations. The approval process for our products in the United States and other jurisdictions is protracted and we believe will take several years. In addition, any acquisitions that we may plan or product development that is beyond the scope of what is described in our plan of operations below will require additional capital, which must be raised through the issuance of our securities.

By the end of the nine month period, on March 31, 2004, we had cash of $879,097.

Results of Operations

Because of the change of business undertaken by our company in May, 2003, it would not be meaningful to compare operations for the three or nine month periods ended March 31, 2004 to March 31, 2003. Instead, we present a plan of operations for our company for the twelve month period ending March 31, 2004.

Plan of Operations

Our primary objective over the twelve months ending March 31, 2005 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 $1,096,177 for the nine months ended March 31, 2004, compared to $31,793 for the nine months ended March 31, 2003. This negative cash flow is primarily attributable to the costs incurred in the acquisition of Pluristem, Ltd., the payment of employees and research costs. 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 March 31, 2005 will be approximately $2,327,500, generally falling in two major categories: research and development costs and business development and general and administrative expenses.

Research and Development Costs

For the twelve months ending March 31, 2005, we estimate that our research and development costs will be approximately $1,386,700. 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.

Business Development, General and Administrative Expenses

For the twelve months ending March 31, 2005, we estimate that our general and administrative expenses will be approximately $940,800. Aside from salaries, rent, telephone, utilities and other normal general expenses, these expenses will also include examining new business opportunities, public relations, investors relations, 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 also are considering issuing shares of our common stock for certain services performed by consultants on behalf of our company.

We do not expect to generate any revenues in the twelve month period ending March 31, 2005. 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 $4,000,000.
- 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 nine month period ended March 31, 2004, 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 the remainder of 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 latest equipment purchase was a FACS (Fluorescence Activated Cell Sorter) analysis machine and we have now built a customized incubator.

Dilution

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 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.

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 $2,332,474 since inception through the period ended March 31, 2004.

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.

Accounting of Technology Rights

See Note 2(b) of the Notes to the Financial Statements as to the accounting for stock based compensation adopted by us in respect of stock and stock options issued to our employees and consultants.

RISK FACTORS

Readers should refer to the risk factors referred to in our Form 10-KSB filed for the fiscal year ended June 30, 2003.

Item 3. Controls and Procedures.

As required by Rule 13a-15 under the Exchange Act, as at March 31, 2004 (being the end of the period covered by this quarterly report on Form 10-QSB) we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's chief executive officer and chief financial officer. Based upon that evaluation, our company's chief executive officer 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 2. Changes in Securities.

Recent Sales of Unregistered Securities

On February 12, 2004, we issued an aggregate of 1,000,000 common shares to Christopher Gilcher, Mike King, Vincent Michael, First Line Capital, Chani Ross and Mark Zegal as compensation for carrying out investor relations and/or research activities pursuant to agreements entered into between these individuals and our company. The common shares were issued in reliance upon Regulation S and/or Rule 506 of Regulation D promulgated under the Securities Act of 1933. These common shares were authorized for issuance by a directors' consent resolution dated January 28, 2004.

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

On February 11, 2004, we held an annual general meeting of security holders. At this meeting Doron Shorrer, Dr. Irit Arbel, Meir Segev, Hava Meretzki and Robert Pico were re-elected as directors to hold office until the next annual general meeting. A total of 13,607,669 votes were cast in favor of the elected directors and 14,000 votes were abstained from voting. We also appointed Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as our independent auditors to hold office until the close of the next annual general meeting. A total of 13,603,889 votes were cast in favor of our appointed independent auditors, 5,000 votes were cast against and 13,000 abstained from voting.

Item 5. Other Information.

On March 11, 2004, we appointed Professor Tsvee Lapidot from the Weizmann Institute of Science, Israel, as a scientific advisor, specifically to analyze our Hematopoietic Stem Cell expansion technology in animal models.

On March 26, 2004, we entered into a Consulting Agreement with Yokim Asset Management for consulting services in consideration for US$75,000.

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

Exhibits required by Item 601 of Regulation S-B

Exhibit Number	Description
(3)	(i) Articles of Incorporation; and (ii) Bylaws
3.1	Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed September 10, 2001).
3.2	Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed September 10, 2001).
3.3	Restated Bylaws (incorporated by reference from our Quarterly Report on Form 10-QSB filed November 19, 2003).
(10)	Material Contracts

10.1	Software Development Agreement (incorporated by reference from our Registration Statement on Form SB-2 filed September 10, 2001).
10.2	Exclusive, World Wide Patent and Technology License and Assignment Agreement (incorporated by reference from our Current Report on Form 8-K filed May 6, 2003).
10.3	Form of Subscription Agreement between our company and those investors listed who participated in the private placement which closed on July 16, 2003 (incorporated by reference from our Registration Statement on Form SB-2 filed February 27, 2004).
10.4	Form of Registration Rights Agreement between our company and those investors listed who participated in the private placement which closed on January 15, 2004 (incorporated by reference from our Registration Statement on Form SB-2 filed February 27, 2004).
10.5	Form of Registration Rights Agreement between our company and those investors listed who participated in the private placement which closed on January 15, 2004 (incorporated by reference from our Registration Statement on Form SB-2 filed February 27, 2004).
10.6	Form of Investors Relations Agreements between our company and those individuals carrying out investor relations activities dated January 28, 2004 (incorporated by reference from our Registration Statement on Form SB-2 filed February 27, 2004).
10.7	Consulting Agreement between Pluristem Life Systems, Inc. and Yokim Asset Management Corp. dated March 26, 2004.
(21)	Subsidiaries of the small business issuer
	Pluristem, Ltd.
(31)	Rule 13a-14(a)/15d-14(a) Certifications
31.1	Certification.
31.2	Certification.
(32)	Section 1350 Certifications
32.1	Certification.

Reports on Form 8-K

On January 13, 2004, on Item 5, reporting the appointment of Mr. Shmuel Levi as our Chief Financial Officer.

On January 22, 2004, on Item 5, reporting the closing of a private placement for gross proceeds of $1,500,000.

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: May 24, 2004

/s/ Irit Arbel

Irit Arbel, President and CEO

(Principal Executive Officer)

Date: May 24, 2004

/s/ Shmuel Levi

Shmuel Levi, Chief Financial Officer

(Principal Financial Officer and
Principal Accounting Officer)