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

Form 10-Q

(Mark One)

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

For the quarterly period ended **December 31, 2016**

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

For the transition period from
_____ to _____

Commission file number **001-31392**

PLURISTEM THERAPEUTICS INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

98-0351734

(IRS Employer Identification No.)

MATAM Advanced Technology Park, Building No. 5, Haifa, Israel 31905

(Address of principal executive offices)

011-972-74-7108607

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Yes No

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 96,065,936 shares of common stock issued and outstanding as of February 2, 2017.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016

(Unaudited)

PLURISTEM THERAPEUTICS INC. AND ITS SUBSIDIARY
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016

U.S. DOLLARS IN THOUSANDS

(Unaudited)

INDEX

| | <u>Page</u> |
|---|-----------------|
| Interim Condensed Consolidated Balance Sheets | F - 2 - F - 3 |
| Interim Condensed Consolidated Statements of Operations | F - 4 |
| Interim Condensed Consolidated Statements of Comprehensive Loss | F - 5 |
| Interim Condensed Statements of Changes in Shareholders' Equity | F - 6 - F - 7 |
| Interim Condensed Consolidated Statements of Cash Flows | F - 8 - F - 9 |
| Notes to Interim Condensed Consolidated Financial Statements | F - 10 - F - 21 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

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

| | Note | December 31, 2016 Unaudited | June 30, 2016 |
|--|------|--------------------------------|------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | | \$ 7,334 | \$ 6,223 |
| Short-term bank deposits | | - | 8,570 |
| Restricted cash and short-term bank deposits | | 570 | 542 |
| Marketable securities | 3 | 14,039 | 17,415 |
| Accounts receivable from the Israel Innovation Authority ("IIA") | | 287 | 2,228 |
| Other current assets | | 723 | 618 |
| <u>Total current assets</u> | | <u>22,953</u> | <u>35,596</u> |
| LONG-TERM ASSETS: | | | |
| Long-term deposits and restricted bank deposits | | 364 | 363 |
| Severance pay fund | | 695 | 766 |
| Property and equipment, net | | 8,287 | 9,216 |
| <u>Total long-term assets</u> | | <u>9,346</u> | <u>10,345</u> |
| <u>Total assets</u> | | <u>\$ 32,299</u> | <u>\$ 45,941</u> |

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

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

| | Note | December 31, 2016 Unaudited | June 30, 2016 |
|--|------|--------------------------------|------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Trade payables | | \$ 2,775 | \$ 2,705 |
| Accrued expenses | | 1,079 | 1,369 |
| Other accounts payable | | 1,523 | 1,701 |
| <u>Total</u> current liabilities | | <u>5,377</u> | <u>5,775</u> |
| LONG-TERM LIABILITIES | | | |
| Accrued severance pay | | 828 | 910 |
| Other long-term liabilities | | 980 | 1,100 |
| <u>Total</u> long-term liabilities | | <u>1,808</u> | <u>2,010</u> |
| COMMITMENTS AND CONTINGENCIES | 5 | | |
| STOCKHOLDERS' EQUITY | | | |
| Share capital: | 6 | | |
| Common stock \$0.00001 par value per share: | | | |
| Authorized: 200,000,000 shares | | | |
| Issued and outstanding: 81,305,951 shares as of | | | |
| December 31, 2016, 80,268,999 shares as of June 30, 2016 | | 1 | 1 |
| Additional paid-in capital | | 199,343 | 198,432 |
| Accumulated deficit | | (174,691) | (161,757) |
| Other comprehensive income | | 461 | 1,480 |
| <u>Total</u> stockholders' equity | | <u>25,114</u> | <u>38,156</u> |
| <u>Total</u> liabilities and stockholders' equity | | <u>\$ 32,299</u> | <u>\$ 45,941</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

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

| | Note | Six months ended December 31 | | Three months ended December 31, | |
|--|------|------------------------------|------------|---------------------------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Revenues | 1c | - | \$ 2,847 | - | \$ 2,752 |
| Cost of revenues | | - | (100) | - | (97) |
| Gross profit | | - | 2,747 | - | 2,655 |
| Operating Expenses: | | | | | |
| Research and development expenses | | (11,512) | (10,630) | (5,481) | (5,571) |
| Less participation by the IIA and other parties | | 1,312 | 1,165 | 279 | 234 |
| Research and development expenses, net | | (10,200) | (9,465) | (5,202) | (5,337) |
| General and administrative expenses | | (3,010) | (3,033) | (1,446) | (1,546) |
| Operating loss | | (13,210) | (9,751) | (6,648) | (4,228) |
| Financial income (expense), net | | 276 | (87) | 38 | 266 |
| Net loss for the period | | \$ (12,934) | \$ (9,838) | \$ (6,610) | \$ (3,962) |
| Loss per share: | | | | | |
| Basic and diluted net loss per share | | \$ (0.16) | \$ (0.12) | \$ (0.08) | \$ (0.05) |
| Weighted average number of shares used in computing basic and diluted net loss per share | | 80,856,219 | 79,066,675 | 81,038,879 | 79,370,673 |

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

U.S. Dollars in thousands

| | Six months ended December 31, | | Three months ended December 31, | |
|--|----------------------------------|-------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | \$ (12,934) | \$ (9,838) | \$ (6,610) | \$ (3,962) |
| Other comprehensive income (loss), net: | | | | |
| Unrealized gain (loss) on available-for-sale marketable securities, net | (999) | (1,346) | (1,585) | 425 |
| Reclassification adjustment of derivative instruments losses realized in net loss, net | - | (46) | - | - |
| Reclassification adjustment of available-for-sale marketable securities gains (losses) realized in net loss, net | (20) | 20 | (16) | (99) |
| Other comprehensive income (loss) | (1,019) | (1,372) | (1,601) | 326 |
| Total comprehensive loss | \$ (13,953) | \$ (11,210) | \$ (8,211) | \$ (3,636) |

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

INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

| | Common Stock | | Additional | Receivables on account | Accumulated Other | Accumulated | Total Stockholders' |
|---|-------------------|-------------|-------------------|------------------------|-------------------|---------------------|---------------------|
| | Shares | Amount | Paid-in | of shares | Comprehensive | Deficit | Equity |
| | | | Capital | | Income (Loss) | | |
| Balance as of July 1, 2015 | 78,771,905 | \$ 1 | \$ 195,303 | \$ (790) | \$ 2,140 | \$ (138,511) | \$ 58,143 |
| Exercise of options by employees and non-employee consultants | 25,000 | (*) | 16 | - | - | - | 16 |
| Stock-based compensation to employees, directors and non-employee consultants | 939,499 | (*) | 1,571 | - | - | - | 1,571 |
| Proceeds related to issuance of common stock in a private placement (Note 6a) | - | - | - | 790 | - | - | 790 |
| Stock-based compensation to contractor (Note 6b) | - | - | 39 | - | - | - | 39 |
| Other comprehensive loss, net | - | - | - | - | (1,372) | - | (1,372) |
| Net loss | - | - | - | - | - | (9,838) | (9,838) |
| Balance as of December 31, 2015 (unaudited) | <u>79,736,404</u> | <u>\$ 1</u> | <u>\$ 196,929</u> | <u>\$ -</u> | <u>\$ 768</u> | <u>\$ (148,349)</u> | <u>\$ 49,349</u> |

(*) Less than \$1

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

INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|--|-------------------|-------------|-------------------------------|---|------------------------|-------------------------------|
| | Shares | Amount | | | | |
| Balance as of July 1, 2016 | 80,268,999 | \$ 1 | \$ 198,432 | \$ 1,480 | \$ (161,757) | \$ 38,156 |
| Exercise of options by employees | 6,000 | (*) | 4 | - | - | 4 |
| Stock-based compensation to employees, directors and non-employee consultants | 1,030,952 | (*) | 907 | - | - | 907 |
| Other comprehensive loss, net | - | - | - | (1,019) | - | (1,019) |
| Net loss | - | - | - | - | (12,934) | (12,934) |
| Balance as of December 31, 2016 (unaudited) | <u>81,305,951</u> | <u>\$ 1</u> | <u>\$ 199,343</u> | <u>\$ 461</u> | <u>\$ (174,691)</u> | <u>\$ 25,114</u> |

(*) Less than \$1

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. Dollars in thousands

| | Six months ended December 31, | |
|---|-------------------------------|--------------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (12,934) | \$ (9,838) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 1,110 | 1,031 |
| Gain from sale of property and equipment, net | (4) | (1) |
| Accretion of discount, amortization of premium and changes in accrued interest of marketable securities | (154) | 146 |
| Gain from sale of investments of available-for-sale marketable securities | (20) | (20) |
| Stock-based compensation to employees, directors and non-employees consultants | 907 | 1,571 |
| Decrease in accounts receivable from the IIA | 1,941 | 1,541 |
| Decrease (increase) in other current assets | (105) | 1,032 |
| Increase (decrease) in trade payables | 160 | (953) |
| Increase (decrease) in other accounts payable, accrued expenses and other long-term liabilities | (588) | 1,051 |
| Decrease in deferred revenues | - | (2,847) |
| Decrease in advance payment from United | - | (93) |
| Increase in interest receivable on short-term deposits | - | (39) |
| Linkage differences and interest on short and long-term deposits and restricted bank deposits | (1) | 24 |
| Accrued severance pay, net | (11) | 6 |
| Net cash used by operating activities | <u>\$ (9,699)</u> | <u>\$ (7,389)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | \$ (273) | \$ (1,471) |
| Proceeds from sale of property and equipment | 6 | 3 |
| Repayment of (investment in) short-term deposits | 8,542 | (8,794) |
| Repayment of long-term deposits and restricted bank deposits | - | 5 |
| Proceeds from sale of available-for-sale marketable securities | 3,813 | 1,054 |
| Proceeds from redemption of available-for-sale marketable securities | 280 | 651 |
| Investment in available-for-sale marketable securities | (1,562) | (2,543) |
| Net cash provided by (used in) investing activities | <u>\$ 10,806</u> | <u>\$ (11,095)</u> |

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. Dollars in thousands

| | Six months ended December 31, | |
|--|-------------------------------|----------|
| | 2016 | 2015 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds related to issuance of common stock and warrants, net of issuance costs | \$ - | \$ 790 |
| Exercise of options | 4 | 16 |
| Net cash provided by financing activities | \$ 4 | \$ 806 |
| Increase (decrease) in cash and cash equivalents | 1,111 | (17,678) |
| Cash and cash equivalents at the beginning of the period | 6,223 | 22,626 |
| Cash and cash equivalents at the end of the period | \$ 7,334 | \$ 4,948 |
| (a) Supplemental disclosure of cash flow activities: | | |
| Cash paid during the period for: | | |
| Taxes paid due to non-deductible expenses | \$ 16 | \$ 43 |
| (b) Supplemental disclosure of non-cash activities: | | |
| Purchase of property and equipment on credit | \$ 36 | \$ 132 |
| Share consideration to contractor | \$ - | \$ 39 |

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands (except share and per share amounts)**

NOTE 1-GENERAL

- a. Pluristem Therapeutics Inc., a Nevada corporation, was incorporated on May 11, 2001. Pluristem Therapeutics Inc. has a wholly owned subsidiary, Pluristem Ltd. (the "Subsidiary"), which is incorporated under the laws of the State of Israel. Pluristem Therapeutics Inc. and the Subsidiary are referred to as the "Company" or "Pluristem".

The Company's shares of common stock are traded on the NASDAQ Capital Market under the symbol "PSTI", and on the Tel-Aviv Stock Exchange under the symbol "PLTR".

- b. The Company is a bio-therapeutics company developing placenta-based cell therapy product candidates for the treatment of multiple ischemic and inflammatory conditions. The Company has sustained operating losses and expects such losses to continue in the foreseeable future. The Company's accumulated losses aggregated to \$174,691 through December 31, 2016, and the Company incurred a net loss of \$12,934 for the six months period ended December 31, 2016.

As of December 31, 2016, the Company's cash position (cash and cash equivalents, short-term bank deposits and marketable securities) totaled approximately \$21,373. The Company plans to continue to finance its operations with sales of equity securities, entering into licensing technology agreements (see Note 1c) and from grants to support its research and development activity. Management believes that these funds, together with the funds received from the public offering that closed on January 25, 2017 (see Note 7), together with its existing operating plan, are sufficient for the Company to meet its obligations as they come due at least for a period of twelve months from the date of the interim condensed consolidated financial statements. In the longer term, the Company plans to finance its operations from revenues from sales of products.

- c. License Agreements:

United Therapeutics Corporation ("United") Agreement

On June 19, 2011, the Company entered into an exclusive license agreement (the "United Agreement") with United for the use of the Company's PLX cells to develop and commercialize a cell-based product for the treatment of Pulmonary Hypertension ("PAH"). The United Agreement provided that United would receive exclusive worldwide license rights for the development and commercialization of the Company's PLX cell-based product to treat PAH.

Under the United Agreement, the Company received an upfront payment of \$7,000 paid in August 2011, which included a \$5,000 non-refundable upfront payment and a \$2,000 advance payment on development.

On December 8, 2015, the Company received a notice from United terminating the United Agreement, effective immediately. Pursuant to the United Agreement termination clause, Pluristem regained full rights to PLX in the field of PAH, as well as all clinical data and regulatory submissions. As the Company has no further obligations towards United, the Company recognized the remaining upfront payment received in August 2011 as revenues during the year ended June 30, 2016.

CHA Biotech Co. Ltd. ("CHA") Agreement

On June 26, 2013, Pluristem entered into an exclusive license and commercialization agreement (the "CHA Agreement") with CHA, for conducting clinical trials and commercialization of Pluristem's PLX-PAD product in South Korea in connection with two indications: the treatment of Critical Limb Ischemia and Intermittent Claudication (the "Indications").

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands (except share and per share amounts)**

NOTE 1: GENERAL (CONT.)

Under the terms of the CHA Agreement, CHA will receive exclusive rights in South Korea for conducting clinical trials with respect to the Indications, and the Company will continue to retain rights to its proprietary manufacturing technology and cell-related intellectual property.

The first clinical study as part of the CHA Agreement is a Phase II trial in Intermittent Claudication. South Korea's Ministry of Food and Drug Safety approved this study in November 2013.

Upon the first regulatory approval for a PLX product in South Korea for the Indications, Pluristem and CHA will establish an equally owned joint venture. The purpose of the joint venture will be to commercialize PLX cell products in South Korea.

Pluristem will be able to use the data generated by CHA to pursue the development of PLX product candidates outside of South Korea.

The CHA Agreement contains customary termination provisions, including in the event the parties do not reach an agreement upon a development plan for conducting the clinical trials. Upon termination of the CHA Agreement, the license granted thereunder will terminate and all rights included therein will revert to the Company, and the Company will be free to enter into agreements with any other third parties for the granting of a license in or outside South Korea, or to deal in any other manner with such rights as it will see fit at its sole discretion.

In addition, and as contemplated by the CHA Agreement, in December 2013, Pluristem and CHA executed the mutual investment pursuant to which Pluristem issued 2,500,000 shares of its common stock in consideration for 1,011,504 shares of CHA, which reflects total consideration to each of Pluristem and CHA of approximately \$10,414. The parties also agreed to give an irrevocable proxy to the other party's management with respect to the voting power of the shares issued.

During March 2015, the Company sold a portion of the CHA shares received in December 2013.

The remaining investment in CHA shares is presented as "Marketable Securities" and classified as available-for-sale in accordance with Accounting Standards Codification (the "ASC") 320, "Investments - Debt and Equity Securities". The fair value of the remaining investment as of December 31, 2016 is \$4,209.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**a. *Unaudited Interim Financial Information***

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of U.S. Securities and Exchange Commission Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included (consisting only of normal recurring adjustments except as otherwise discussed).

For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016.

Operating results for the three and six month periods ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017.

b. *Significant Accounting Policies*

The significant accounting policies followed in the preparation of these unaudited interim condensed consolidated financial statements are identical to those applied in the preparation of the latest annual financial statements.

c. *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, judgments and assumptions that are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

d. *Fair value of financial instruments*

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

The Company measures its investments in marketable securities and derivative instruments at fair value under ASC 820, "Fair Value Measurements and Disclosures". Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Unobservable inputs for the asset or liability.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company categorized each of its fair value measurements in one of these three levels of hierarchy (see Note 4).

e. Derivative financial instruments

The Company uses options strategies ("derivative instruments") primarily to minimize the risk associated with the foreign exchange effects of monetary assets and liabilities denominated in NIS. The Company accounts for derivatives based on ASC 815, "Derivatives and Hedging". ASC 815 requires the Company to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of derivative instruments depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Since the derivative instruments that the Company holds are not designated and qualify as hedging instruments under ASC 815, the Company measured the fair value of the derivative instruments in accordance with ASC 820 (classified as level 2) and recognizes changes in the fair values in its statement of operations each reporting period in "Financial income (expenses), net".

As of December 31, 2016, the fair value of the options contracts were approximately (\$1) and presented in "other accounts payable" (see Note 4). The net gains (losses) recognized in "Financial income (expense), net" during the three and six month periods ended December 31, 2016 and 2015, were (\$131), (\$66) and \$103, (\$181), respectively.

f. Recent Accounting PronouncementAccounting Standards Update ("ASU") 2014-09 - Revenue from Contracts with Customers (Topic 606):

In May 2014, the Financial Accounting Standards Board (the "FASB") issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In April 2016, the FASB issued ASU 2016-10, which clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity's promise to grant a license with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The guidance is effective for the interim and annual periods beginning on or after December 15, 2017, or July 1, 2018 for the Company (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands (except share and per share amounts)**

NOTE 2:- BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT.)ASU 2016-13 - Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments:

In June 2016, the FASB issued ASU 2016-13. This update requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime “expected credit loss” on a financial asset and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. The update also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The update is effective for the interim and annual periods beginning on or after December 15, 2019, or July 1, 2020 for the Company. Early adoption is permitted. The Company is currently evaluating the impact of the update on its consolidated financial statements.

ASU 2016-18 - Restricted Cash (Topic 230):

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows. This standard requires the presentation of the statement of cash flows to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. The standard is effective for the interim and annual periods beginning on or after December 15, 2017, or July 1, 2018 for the Company. Early adoption is permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- MARKETABLE SECURITIES

As of December 31, 2016, all of the Company's marketable securities were classified as available-for-sale.

| | December 31, 2016 (Unaudited) | | | | June 30, 2016 | | | | |
|---|-------------------------------|-----------------------|-----------------------|------------------|------------------|-----------------------|-----------------------|---------------------------------|------------------|
| | Amortized cost | Gross unrealized gain | Gross unrealized loss | Fair Value | Amortized cost | Gross unrealized gain | Gross unrealized loss | Other-than-temporary impairment | Fair value |
| Available-for-sale - matures within one year: | | | | | | | | | |
| Stock and index linked notes | \$ 11,445 | \$ 1,496 | \$ (1,058) | \$ 11,883 | \$ 11,599 | \$ 1,594 | \$ (208) | \$ (38) | \$ 12,947 |
| Government debentures – fixed interest rate | - | - | - | - | 786 | 12 | - | - | 798 |
| Corporate debentures – fixed interest rate | 103 | 2 | - | 105 | 439 | 7 | - | - | 446 |
| | <u>\$ 11,548</u> | <u>\$ 1,498</u> | <u>\$ (1,058)</u> | <u>\$ 11,988</u> | <u>\$ 12,824</u> | <u>\$ 1,613</u> | <u>\$ (208)</u> | <u>\$ (38)</u> | <u>\$ 14,191</u> |
| Available-for-sale - matures after one year through five years: | | | | | | | | | |
| Government debentures – fixed interest rate | 616 | 21 | - | 637 | 717 | 27 | - | - | 744 |
| Corporate debentures – fixed interest rate | 1,399 | 7 | (7) | 1,399 | 2,403 | 47 | - | - | 2,450 |
| | <u>\$ 2,015</u> | <u>\$ 28</u> | <u>\$ (7)</u> | <u>\$ 2,036</u> | <u>\$ 3,120</u> | <u>\$ 74</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,194</u> |
| Available-for-sale - matures after five years through ten years: | | | | | | | | | |
| Corporate debentures – fixed interest rate | 15 | - | - | 15 | 29 | 1 | - | - | 30 |
| | <u>\$ 15</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 15</u> | <u>\$ 29</u> | <u>\$ 1</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 30</u> |
| | <u>\$ 13,578</u> | <u>\$ 1,526</u> | <u>\$ (1,065)</u> | <u>\$ 14,039</u> | <u>\$ 15,973</u> | <u>\$ 1,688</u> | <u>\$ (208)</u> | <u>\$ (38)</u> | <u>\$ 17,415</u> |

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2016 and June 30, 2016, and the length of time that those investments have been in a continuous loss position:

| | Less than 12 months | | 12 months or greater | |
|-------------------------------------|---------------------|-----------------------|----------------------|-----------------------|
| | Fair Value | Gross unrealized loss | Fair Value | Gross unrealized loss |
| As of December 31, 2016 (Unaudited) | \$ 2,222 | \$ (1,025) | \$ 625 | \$ (40) |
| As of June 30, 2016 | \$ 1,258 | \$ (143) | \$ 563 | \$ (65) |

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- MARKETABLE SECURITIES (CONT.)

Based on the above factors, the Company concluded that unrealized losses on all available-for-sale securities were not other-than-temporary and no credit loss was present for any of its investments. As such, the Company did not recognize any impairment charges on outstanding securities during the three and six month period's ended December 31, 2016.

NOTE 4:- FAIR VALUE OF FINANCIAL INSTRUMENTS

| | December 31, 2016 (Unaudited) | | June 30, 2016 | |
|---|-------------------------------|----------|---------------|----------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Marketable securities | \$ 9,475 | \$ 4,564 | \$ 11,228 | \$ 6,187 |
| Foreign currency derivative instruments | - | (1) | - | 65 |
| Total financial assets | \$ 9,475 | \$ 4,563 | \$ 11,228 | \$ 6,252 |

| | December 31, 2016 (Unaudited) | | June 30, 2016 | |
|---|-------------------------------|------------|----------------------------|------------|
| | Balance Sheet presentation | Fair Value | Balance Sheet presentation | Fair Value |
| Derivatives not designated as hedge instruments | Other accounts payable | \$ (1) | Other current assets | \$ 65 |
| Total | | \$ (1) | | \$ 65 |

NOTE 5: - COMMITMENTS AND CONTINGENCIES

- a. An amount of \$570 of cash and deposits was pledged by the Subsidiary to secure the derivatives and hedging transactions, credit line and bank guarantees.
- b. Under the Law for the Encouragement of Industrial Research and Development, 1984, (the "Research Law"), research and development programs that meet specified criteria and are approved by the IIA are eligible for grants of up to 50% of the project's expenditures, as determined by the research committee, in exchange for the payment of royalties from the sale of products developed under the program. Regulations under the Research Law generally provide for the payment of royalties to the IIA of 3% to 4% on sales of products and services derived from a technology developed using these grants until 100% of the dollar-linked grant is repaid. The Company's obligation to pay these royalties is contingent on its actual sale of such products and services. In the absence of such sales, no payment is required. Outstanding balance of the grants will be subject to interest at a rate equal to the 12 month LIBOR applicable to dollar deposits that is published on the first business day of each calendar year. Following the full repayment of the grant, there is no further liability for royalties.

Through December 31, 2016, total grants obtained aggregated to approximately \$24,461 and total royalties paid and accrued amounted to \$166. As of December 31, 2016, the Company's contingent liability in respect to royalties to the IIA amounted \$24,295, not including LIBOR interest as described above.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands (except share and per share amounts)****NOTE 6: - STOCKHOLDERS' EQUITY**

- a. From October 2014 through May 2015, the Company issued shares of common stock in private placements to an investor. In October 2014, the Company issued 200,000 shares of common stock to an investor for aggregate cash consideration of \$528. In February 2015, the Company issued an additional 200,000 shares of common stock to an investor for aggregate cash consideration of \$586. In May 2015, the Company issued an additional 300,000 shares of common stock to an investor, for which the consideration in the amount of \$790 was received from the investor in September 2015.
- b. In February 2015, the Subsidiary entered into an agreement with a contractor for the construction of its new laboratories facility for a consideration of approximately NIS 3.3 million (approximately \$841). Under the terms of the agreement, the Subsidiary agreed to pay part of the NIS 3.3 million consideration using 100,004 restricted shares of common stock of the Company, linked to performance milestones with respect to the new laboratories construction and which serve as a guarantee. These restricted shares were released to the contractor in December 2014 upon the successful completion of the construction.

In May 2015, the Subsidiary entered into an addendum to the agreement with the contractor for the design and construction of additional office space renovations in the Subsidiary leased facility for additional consideration of approximately NIS 4 million (approximately \$1,032) which is comprised of NIS 3 million (approximately \$774) in cash and 90,000 restricted shares which were issued to the contractor in February 2016.

The Company accounted for the abovementioned stock-based payment awards to the contractor in accordance with ASC 505-50, "Equity based payments to non-employees". As performance by the contractor was not deemed complete while the awards were forfeitable (or not issued), the Company measured the fair value of the awards at each reporting period through the performance completion date (until completion of the construction work).

The construction work was initiated in June 2015. On October 30, 2015, the contractor completed the agreed construction milestones. As a result, the Company recognized the fair value of the stock-based payments awards, using the fair value of the Company's shares on October 30, 2015, totaling approximately \$302 as stock-based payment to the contractor in "Additional paid-in capital" with a corresponding amount included in "Property and equipment, net".

- c. **Options, warrants, restricted stocks and restricted stock units to employees, directors and consultants:**

1. Options to employees and directors:

The Company accounts for its options to employees and directors under the fair value method in accordance with ASC 718, "Compensation—Stock Compensation". A summary of the Company's activity for options granted to employees and directors under its 2005 incentive option plan is as follows:

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6: - STOCKHOLDERS' EQUITY (CONT.)

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

| | Six months ended December 31, 2016 (Unaudited) | | | |
|--|--|---------------------------------|---|---------------------------------|
| | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Terms (in years) | Aggregate Intrinsic Value Price |
| Options outstanding at beginning of period | 1,771,700 | \$ 3.759 | | |
| Options forfeited | (67,550) | \$ 3.90 | | |
| Options exercised | (6,000) | \$ 0.62 | | |
| Options outstanding at end of the period | 1,698,150 | \$ 3.764 | 0.678 | \$ 294 |
| Options exercisable at the end of the period | 1,698,150 | \$ 3.764 | 0.678 | \$ 294 |
| Options vested | 1,698,150 | \$ 3.764 | 0.678 | \$ 294 |

Intrinsic value of exercisable options (the difference between the Company's closing stock price on the last trading day in the period and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on December 31, 2016. This amount changes based on the fair market value of the Company's common stock.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6: - STOCKHOLDERS' EQUITY (CONT.)

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

2. Options and warrants to non-employees:

A summary of the options and warrants to non-employee consultants is as follows:

| | Six months ended December 31, 2016 (Unaudited) | | | |
|---|--|---------------------------------|---|---------------------------------|
| | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Terms (in years) | Aggregate Intrinsic Value Price |
| Options and warrants outstanding at beginning of period | 237,300 | \$ 5.40 | | |
| Options granted | 46,800 | \$ 0.00 | | |
| Options forfeited | (5,000) | \$ 3.80 | | |
| Options and warrants outstanding at end of the period | 279,100 | \$ 4.52 | 3.12 | \$ 152 |
| Options and warrants exercisable at the end of the period | 242,750 | \$ 5.20 | 2.19 | \$ 151 |
| Options not vested, expected to vest | 279,100 | \$ 4.52 | 3.12 | \$ 152 |

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

| | Six months ended December 31, | | Three months ended December 31, | |
|-------------------------------------|-------------------------------|------|---------------------------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | | (Unaudited) | |
| Research and development expenses | \$ 3 | \$ 1 | \$ 3 | \$ - |
| General and administrative expenses | \$ 14 | \$ - | \$ 14 | \$ - |
| | \$ 17 | \$ 1 | \$ 17 | \$ - |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6: - STOCKHOLDERS' EQUITY (CONT.)**c. Options, warrants, restricted stock and restricted stock units to employees, directors and consultants (cont.):**

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

The following table summarizes the activity related to unvested restricted stock and restricted stock units granted to employees and directors for the six month period ended December 31, 2016 (Unaudited):

| | <u>Number</u> |
|--|------------------|
| Unvested at the beginning of period | 1,906,619 |
| Granted | 2,386,365 |
| Forfeited | (70,468) |
| Vested | (897,480) |
| Unvested at the end of the period | <u>3,325,036</u> |
| Expected to vest after December 31, 2016 | <u>3,159,307</u> |

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

| | <u>Six months ended December 31,</u> | | <u>Three months ended December 31,</u> | |
|-------------------------------------|--------------------------------------|-----------------|--|---------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| | <u>(Unaudited)</u> | | <u>(Unaudited)</u> | |
| Research and development expenses | \$ 210 | \$ 483 | \$ 100 | \$ 163 |
| General and administrative expenses | 439 | 1,020 | 177 | 446 |
| | <u>\$ 649</u> | <u>\$ 1,503</u> | <u>\$ 277</u> | <u>\$ 609</u> |

Unamortized compensation expenses related to restricted stock units granted to employees and directors to be recognized over an average time of approximately 2 years is approximately \$319.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6: - STOCKHOLDERS' EQUITY (CONT.)**c. Options, warrants, restricted stock and restricted stock units to employees, directors and consultants (cont.):**

4. Restricted stock and restricted stock units to consultants:

The following table summarizes the activity related to unvested restricted stock and restricted stock units granted to consultants for the six months ended December 31, 2016 (Unaudited):

| | <u>Number</u> |
|-------------------------------------|------------------|
| Unvested at the beginning of period | 26,000 |
| Granted | 168,221 |
| Vested | <u>(133,472)</u> |
| Unvested at the end of the period | <u>60,749</u> |

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

| | <u>Six months ended December 31,</u> | | <u>Three months ended December 31,</u> | |
|-------------------------------------|--------------------------------------|--------------|--|--------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| | <u>(Unaudited)</u> | | <u>(Unaudited)</u> | |
| Research and development expenses | \$ 7 | \$ 20 | \$ 3 | \$ 10 |
| General and administrative expenses | 234 | 48 | 125 | 45 |
| | <u>\$ 241</u> | <u>\$ 68</u> | <u>\$ 128</u> | <u>\$ 55</u> |

NOTE 7:-SUBSEQUENT EVENTS

On January 25, 2017, the Company sold, pursuant to an underwriting agreement relating to a firm commitment public offering, an aggregate of 14,081,633 shares of common Stock and warrants to purchase 8,448,980 shares of common stock, inclusive of the underwriter's over-allotment option, which was exercised in full, for aggregate gross proceeds of \$17,250. The net proceeds, after deducting underwriting commissions and discounts were \$15,958 (before deducting other expenses related to the offering).

The warrants issued in the Offering are exercisable for a period of five and a half years commencing six months following issuance and have an exercise price of \$1.40 per share.

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

Forward - Looking Statements

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other Federal securities laws, and is subject to the safe-harbor created by such Act and laws. Forward-looking statements may include statements regarding our goals, beliefs, strategies, objectives, plans, including product and technology developments, future financial conditions, results or projections or current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other variations thereon or comparable terminology. These statements are merely predictions and therefore inherently subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance levels of activity, or our achievements, or industry results to be materially different from those contemplated by the forward-looking statements. Such forward-looking statements appear in this Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," and may appear elsewhere in this quarterly report on Form 10-Q and include, but are not limited to, statements regarding the following:

- the expected development and potential benefits from our products in treating various medical conditions;
- the clinical trials to be conducted according to our license agreement with CHA Biotech Co. Ltd.;
- our plan to execute our strategy independently, using our own personnel, and through relationships with research and clinical institutions or in collaboration with other companies;
- the prospects of entering into additional license agreements, or other forms of cooperation with other companies and medical institutions;
- our pre-clinical and clinical trials plans, including timing of initiation, enrollment and conclusion of trials;
- achieving regulatory approvals, including under accelerated paths;
- receipt of future funding from the Israel Innovation Authority, or IIA;
- our marketing plans, including timing of marketing our first product, PLX-PAD;
- developing capabilities for new clinical indications of placenta expanded (PLX) cells and new products;
- our estimations regarding the size of the global market for our product candidates;
- our expectations regarding our production capacity;
- our expectation to demonstrate a real-world impact and value from our pipeline, technology platform and commercial-scale manufacturing capacity;
- our expectations regarding our short- and long-term capital requirements;
- the proposed private placement of our common stock and warrants pursuant to the term sheet with Innovative Medical Management Co., Ltd., or Innovative Medical, described in the overview below, the terms of such offering, the plan to enter into definitive agreements, as well the expected approval of Innovative Medical shareholders of such term sheet;
- the proposed joint venture, described in the overview below, to be established with Sosei Corporate Venture Capital Ltd. for the clinical development and commercialization of Pluristem's PLX-PAD cell therapy product in Japan and the plan to enter into definitive agreements;
- our outlook for the coming months and future periods, including but not limited to our expectations regarding future revenue and expenses; and

- information with respect to any other plans and strategies for our business.

Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report. In addition, historic results of scientific research, clinical and preclinical trials do not guarantee that the conclusions of future research or trials would not suggest different conclusions. Also, historic results referred to in this periodic report would be interpreted differently in light of additional research, clinical and preclinical trials results. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Further information on potential factors that could affect our business is described under the heading "Risk Factors" in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, or the 2016 Annual Report. Readers are also urged to carefully review and consider the various disclosures we have made in that report.

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

Overview

Pluristem Therapeutics Inc. is a leading developer of placenta-based cell therapy product candidates for the treatment of multiple ischemic, inflammatory and hematologic conditions. Our lead indications are critical limb ischemia, or CLI, recovery after surgery for femoral neck fracture, and acute radiation syndrome, or ARS. Pivotal, multinational clinical trials are planned for our PLX-PAD product candidate in CLI and femoral neck fracture, and the National Institutes of Health's National Institute of Allergy and Infectious Diseases, or NIAID, is currently conducting a dose selection trial with PLX-R18 in the hematologic component of ARS. Each of these indications is a severe unmet medical need.

PLX cells are derived from a class of placental cells that are harvested from donated placentas at the time of full term delivery of a live baby. PLX cell products require no tissue matching prior to administration. They are produced using our proprietary three-dimensional expansion technology. Our manufacturing facility complies with the U.S. Food and Drug Administration's, or FDA's current Good Manufacturing Practice requirements and has been approved by the European, Japanese and Israeli regulatory authorities for production of PLX-PAD for late stage trials and marketing. We expect to have in-house production capacity to grow clinical-grade PLX cells in commercial quantities.

Our goal is to make significant progress with our robust clinical pipeline and our anticipated pivotal trials in order to ultimately bring innovative, potent therapies to patients who need new treatment options. We intend to shorten the time to commercialization of our first product candidate, PLX-PAD, by leveraging the unique accelerated regulatory pathways that exist in Europe and Japan to bring innovative products that address life-threatening diseases to the market efficiently. We believe that these accelerated pathways create substantial opportunities for us and for the cell therapy industry as a whole. We are pursuing these accelerated pathways for PLX-PAD in CLI and femoral neck fracture. Our second product candidate, PLX R18, is under development in the United States for ARS via the Animal Rule regulatory pathway, which may result in approval without the prior performance of human efficacy trials. We expect to demonstrate a real-world impact and value from our pipeline, technology platform and commercial-scale manufacturing capacity.

In December 2016, we announced that we signed a binding term sheet with Sosei Corporate Venture Capital Ltd., or Sosei CVC, for the establishment of a new Japanese corporation, or NewCo, for the clinical development and commercialization of our PLX-PAD cell therapy product in Japan. The parties plan to establish NewCo in Japan, in which we will own 35% of the equity in return for our contribution of a perpetual license to commercialize PLX-PAD for CLI in Japan. All proprietary rights related to PLX-PAD will be exclusively owned by us. Sosei CVC's investment fund, Sosei RMF1, together with additional Japanese investors, will raise and invest approximately \$11 million, equivalent to approximately ¥1.3 billion, in return for ownership of 65% of NewCo. The parties plan to enter into a definitive agreement no later than March 31, 2017.

In November 2016, we announced that the United Kingdom's Medicines & Healthcare Products Regulatory Agency has cleared our application to begin the pivotal Phase III trial of PLX-PAD cells in the treatment of CLI for patients who are unsuitable for revascularization. This multinational Phase III trial will be conducted in the United States as well as Europe. On January 10, 2017, we announced that the FDA had cleared our Phase III trial and on January 17, 2017, we announced that the Paul Ehrlich Institute (PEI) cleared us to begin enrollment in Germany for the trial. We anticipate commencing patient enrollment in the first half of 2017. Our intention is to file a request for marketing authorization in the United States and in Europe following a successful completion of this 250-patient (estimated) trial.

In July 2016, we announced our intent to conduct a Phase III trial assessing our PLX-PAD cells in recovery following surgery for femoral neck fracture in the United States and Europe. In addition, the European Medicines Agency, or EMA, confirmed that this indication would also be eligible for the Adaptive Pathways project.

In February 2016, we announced that the NIAID will initiate studies in large animals to select the appropriate doses for PLX-R18 as a medical counter measure in the treatment of the hematologic component of ARS. These studies have been initiated. Once the optimal dose is determined in large animals, a pivotal trial could be conducted, the results of which may be used to support a Biologics License Application for PLX-R18 for this indication under the Animal Rule regulatory pathway. The NIAID supports and collaborates on the dosing studies, and Pluristem supplies the PLX-R18 cells. In December 2015, we also signed a Memorandum of Understanding for a collaboration with Fukushima Medical University, Fukushima Global Medical Science Center. The purpose of the collaboration is to develop our PLX-R18 cells for the treatment of ARS, and for morbidities following radiotherapy in cancer patients.

We have also made progress in our Phase II intermittent claudication (IC) trial, a randomized, double blind, placebo controlled, multinational clinical trial. On January 12, 2017, we announced that we had completed enrollment of all 172 patients in the Phase II trial. We currently have active clinical sites in the United States, Israel, Germany and South Korea.

The FDA cleared our Investigational New Drug application to begin a Phase I trial of PLX-R18 cells to treat incomplete hematopoietic recovery following hematopoietic cell transplantation, or HCT. We anticipate commencing patient enrollment in the first half of 2017.

In December 2015, the FDA granted our PLX-PAD cells Orphan Drug Designation in the treatment of severe preeclampsia. We are currently conducting additional pre-clinical studies in order to advance towards a Phase I trial.

In May 2015, we announced that the PLX-PAD cell program in CLI had been selected for the Adaptive Pathways pilot project of the EMA. In addition, we reached an agreement with Japan's Pharmaceuticals and Medical Devices Agency on the design of the final trial needed to apply for conditional approval of PLX-PAD cells in the treatment of CLI. The approval of the protocol for the 75-patient trial was part of a larger agreement on the development of PLX-PAD via Japan's new accelerated regulatory pathway for regenerative medicine.

RESULTS OF OPERATIONS – SIX AND THREE MONTHS ENDED DECEMBER 31, 2016 COMPARED TO SIX AND THREE MONTHS ENDED DECEMBER 31, 2015.

Revenues

Revenues for the six and three month periods ended December 31, 2015 were \$2,847,000, \$2,752,000, versus no revenues generated in the six and three month period ended December 31, 2016. All revenues in the period ended December 31, 2015 were derived from a prior license agreement, or the United Agreement, with United Therapeutics Corporation, or United.

On December 8, 2015, we received a notice from United terminating the United Agreement effective immediately. As we have no further obligations towards United, we recognized the remaining upfront payment received in August 2011 as revenues during the year ended June 30, 2016.

Research and Development Expenses, Net

Research and development expense, net (costs less participation and grants by the IIA and other parties) for the six months ended December 31, 2016 increased by 8% from \$9,465,000 for the six months ended December 31, 2015 to \$10,200,000, mainly due to an increase in payments to consultants and subcontractors related to clinical studies such as our CLI and HCT studies, and an increase in materials consumption. The increase was offset by a higher participation from the IIA in calendar year 2016 compared to calendar year 2015 (\$2,900,000 was approved in 2015 compared to \$3,300,000 that was approved in 2016) and a decrease in stock-based compensation expenses due to the decrease in the market value of our common stock from the value on the date of the grant.

Research and development expense, net (costs less participation and grants by the IIA and other parties) for the three months ended December 31, 2016 decreased by 3% from \$5,337,000 for the three months ended December 31, 2015 to \$5,202,000. This decrease is attributed to a decrease in materials consumption, a decrease in patent expenses, a higher participation from the IIA in calendar year 2016 compared to calendar year 2015 (\$2,900,000 was approved in 2015 compared to \$3,300,000 that was approved in 2016) and a decrease in stock-based compensation expenses due to the decrease in the market value of our common stock from the value on the date of the grant. The decrease was offset by an increase in payments to consultants and subcontractors related to clinical studies such as our CLI and HCT studies.

General and Administrative Expenses

General and administrative expenses for the six months ended December 31, 2016 decreased by 1% from \$3,033,000 for the six months ended December 31, 2015 to \$3,010,000. This decrease is attributed to a decrease in stock-based compensation expenses due to the decrease in the market value of our common stock from the value on the date of the grant, which was partially offset by an increase in corporate activities expenses.

General and administrative expenses for the three months ended December 31, 2016 decreased by 6% from \$1,546,000 for the three months ended December 31, 2015 to \$1,446,000, mainly due to a decrease in stock-based compensation expenses due to the decrease in the market value of our common stock from the value on the date of the grant, which was partially offset by an increase in corporate activities expenses.

Financial Income, Net

Financial income, net, increased from a net expense of \$87,000 for the six months ended December 31, 2015 to a net income of \$276,000 for the six months ended December 31, 2016. This increase is mainly attributable to increased income from exchange rates, since through the six months ended December 31, 2016, there was a decrease of 0.03% of the U.S. dollar against the New Israeli Shekel, or NIS, compared to an increase of 4% of the U.S. dollar against the NIS through the six months ended December 31, 2015, and from our hedging instruments related to the strength of the U.S. dollar against the NIS.

Financial income, net, decreased from a net income of \$266,000 for the three months ended December 31, 2015 to a net income of \$38,000 for the three months ended December 31, 2016. This decrease is mainly attributable to expenses related to the changes in the fair value of our hedging instruments which is related to the strength of the U.S. dollar against the NIS and to an increased expense from exchange rates, since through the three months ended December 31, 2016, there was an increase of 2% of the U.S. dollar against the NIS, compared to a decrease of 1% of the U.S. dollar against the NIS through the three months ended September 30, 2015. This decrease was offset by a higher income related to our marketable securities (such as net gains related to sales of the marketable securities, interest and dividend income).

Net Loss

Net loss for the six and three month periods ended December 31, 2016 was \$12,934,000 and \$6,610,000, respectively, as compared to net loss of \$9,838,000 and \$3,962,000 for the six and three month periods ended December 31, 2015, respectively. The changes were mainly due to the termination of the United Agreement, and an increase in research and development expenses, offset by increased financial income, as described above. Net loss per share for the six and three month periods ended December 31, 2016 was \$0.16 and \$0.08, respectively, as compared to \$0.12 and \$0.05 for the six and three month periods ended December 31, 2015.

For the six and three month periods ended December 31, 2016 and December 31, 2015, we had weighted average shares of common stock outstanding of 80,856,219, 81,038,879 and 79,066,675, 79,370,673, respectively, which were used in the computations of net loss per share for the six and three-month periods.

The increase in weighted average common shares outstanding reflects the issuance of additional shares, mainly the issuances of shares related to employees and consultants, and shares issued as a result of exercises of warrants and options.

Liquidity and Capital Resources

As of December 31, 2016, our total current assets were \$22,953,000 and total current liabilities were \$5,377,000. On December 31, 2016, we had a working capital surplus of \$17,576,000, stockholders' equity of \$25,114,000 and an accumulated deficit of \$174,691,000. We finance our operations and plan to continue doing so from our existing cash, issuances of our securities, sales of the marketable securities we hold, licensing fees and other potential payments under licensing agreements, and funds from grants from the IIA and Israel's Ministry of Economy and other research grants.

Cash and cash equivalents as of December 31, 2016 amounted to \$7,334,000 compared to \$4,948,000 as of December 31, 2015, and compared to \$6,223,000 as of June 30, 2016. Cash balances changed in the six months ended December 31, 2016 and 2015 for the reasons presented below.

Operating activities used cash of \$9,699,000 in the six months ended December 31, 2016, compared to \$7,389,000 in the six months ended December 31, 2015. Cash used in operating activities in the six months ended December 31, 2016 and 2015 consisted primarily of payments of salaries to our employees, and payments of fees to our consultants, suppliers, subcontractors, and professional services providers, including the costs of clinical studies, offset by grants from the IIA and Israel's Ministry of Economy.

Investing activities provided cash of \$10,806,000 in the six months ended December 31, 2016, compared to cash used of \$11,095,000 for the six months ended December 31, 2015. The investing activities in the six months ended December 31, 2016 consisted primarily of the withdrawal of \$8,542,000 of short term deposits and \$4,093,000 provided from the sale and redemption of marketable securities, offset by investment of \$1,562,000 in marketable securities and payments of \$273,000 related to investment in property and equipment. The investing activities in the six months ended December 31, 2015 consisted primarily of the investment of \$8,794,000 in short term deposits, investment of \$2,543,000 in marketable securities and investment of \$1,471,000 in property and equipment. Our investment activities also provided cash of \$1,705,000 from the sale and redemption of marketable securities.

Financing activities generated cash of \$4,000 during the six months ended December 31, 2016, compared to \$806,000 for the six months ended December 31, 2015. The cash generated in the six months ended December 31, 2016 from financing activities is related to exercises of options by employees. The cash generated in the six months ended December 31, 2015 from financing activities is related to proceeds received in September 2015 from shares issued in a private placement in May 2015, and exercises of warrants and options by shareholders.

On January 20, 2017, we entered into an amended and restated underwriting agreement with an underwriter, pursuant to which, the underwriter agreed to buy, on an underwritten firm commitment basis, 12,244,898 shares of our common stock, par value \$0.00001 per share ("Common Stock"), and warrants to purchase 7,346,939 shares of our Common Stock. In addition, we also granted the underwriter a 30-day option to purchase from us up to an additional 1,836,735 shares of our Common Stock at a price of \$1.15056 per share, and warrants to purchase an additional 1,102,041 shares of our Common Stock at a purchase price of \$0.00156604 per warrant, to cover over allotments.

On January 25, 2017, we closed the Offering and sold an aggregate of 14,081,633 shares of our Common Stock and warrants to purchase 8,448,980 shares of our Common Stock, inclusive of the over-allotment option, which was exercised in full, for aggregate net proceeds of approximately \$15,958,000.

During the six months ended December 31, 2016, we received cash of approximately \$3,258,000 from the IIA towards our research and development expenses. According to the IIA grant terms, we are required to pay royalties at a rate of 3% - 4% on sales of products and services derived from technology developed using this and other IIA grants until 100% of the dollar-linked grants amount plus interest are repaid. In the absence of such sales, no payment is required. Through December 31, 2016, total grants obtained aggregated to approximately \$24,461,000 and total royalties paid amounted to \$166,000.

In October 2016, we signed a binding term sheet, or the Term Sheet, for an investment of approximately \$30,000,000 by China-based Innovative Medical Management Co. Ltd., or Innovative Medical, a publicly listed Chinese company. Pursuant to the Term Sheet, Innovative Medical will purchase approximately 16,890,000 shares of our common stock at a purchase price of \$1.77 per share, as well as warrants to purchase approximately 4,422,500 shares of our common stock, with such warrants having an exercise price of \$2.50 per share and exercisable for a period of 5 years. In accordance with the Term Sheet, Innovative Medical will have the right to designate an additional director upon the closing of the agreement and, as long as it holds at least 12.5% of our issued and outstanding stock, to designate one nominee for election at our annual meeting of shareholders thereafter. Innovative Medical will also have certain information, registration and pre-emptive rights as well as certain negotiation rights with respect to our potential transactions in China. On December 23, 2016, we announced that, due to a recently adopted Chinese policy relating to outbound investments by Chinese companies, we agreed with Innovative Medical to extend the time of execution of the definitive agreements relating to Innovative Medical's proposed investment. As a result of the recently adopted Chinese policy, we now plan to continue the discussions with respect to the definitive agreements until we and Innovative Medical received further clarification about such policies, which is expected during the first half of 2017.

The currency of our financial portfolio is mainly in U.S. dollars and we use options contracts in order to hedge our exposures to currencies other than the U.S. dollar. For more information, please see Item 7A. - "Quantitative and Qualitative Disclosures about Market Risk" in our 2016 Annual Report.

We have an effective Form S-3 registration statement, filed under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, or the SEC, using a "shelf" registration process. Under this shelf registration process, we may, from time to time, sell common stock, preferred stock and warrants to purchase common stock, and units of two or more of such securities in one or more offerings up to a total dollar amount of \$200,000,000. As of February 7, 2017, we have sold 20,881,633 shares of our common stock and warrants to purchase up to 12,528,980 shares of common stock in a total gross amount of \$34,250,000 in offerings we closed in June 2015 and January 2017.

Outlook

We have accumulated a deficit of \$174,691,000 since our inception in May 2001. We do not expect to generate any revenues from sales of products in the next twelve months. Our cash needs will increase in the foreseeable future. We expect to generate revenues, which in the short and medium terms will unlikely exceed our costs of operations, from the sale of licenses to use our technology or products. Our management believes that we may need to raise additional funds, in addition to the funds raised in the January 2017 equity offering, before we have cash flow from operations that can materially decrease our dependence on our existing cash and other liquidity resources. We are continually looking for sources of funding, including non-diluting sources such as the IIA grants and other research grants, sales of our common stock, such as the sale pursuant to the Term Sheet, or sales of the marketable securities we hold.

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

Off Balance Sheet Arrangements

We have no off balance sheet arrangements.

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

During the three and six months ended December 31, 2016, we issued an aggregate of 87,806 and 107,806 shares of common stock to consultants for services rendered, respectively.

The above issuances were exempt under Section 4(a)(2) of the Securities Act or Regulation S promulgated under the Securities Act.

Item 4. Controls and Procedures.

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

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

Changes in Internal Control Over Financial Reporting - There has been no change in our internal control over financial reporting during the second quarter of Fiscal 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits.

- 4.1 Form of Warrant (incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on January 20, 2017).
- 10.1* Binding Term Sheet by and between Pluristem Therapeutics Inc. and Innovative Medical Management Co., Ltd., dated October 25, 2016. (English version only)
- 10.2* Binding Term Sheet by and between Pluristem Therapeutics Inc. and Sosei Corporate Venture Capital Ltd., dated December 20, 2016.
- 31.1* Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2* Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1** Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2** Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
- 101 * The following materials from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Interim Condensed Consolidated Balance Sheets, (ii) the Interim Condensed Consolidated Statements of Operations, (iii) the Interim Condensed Consolidated Statements of Comprehensive Loss, (iv) the Interim Condensed Statements of Changes in Equity, (v) the Interim Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Interim Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.

*Filed herewith.

** Furnished herewith.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLURISTEM THERAPEUTICS INC.

By: /s/ Zami Aberman
Zami Aberman, Chief Executive Officer
(Principal Executive Officer)
Date: February 8, 2017

By: /s/ Yaky Yanay
Yaky Yanay, Chief Financial Officer, Chief Operating Officer and President
(Principal Financial Officer and Principal Accounting Officer)
Date: February 8, 2017

TERMSHEET

October 25, 2016

This Term Sheet is intended to summarize, certain key terms and conditions on which Pluristem Therapeutics Inc. (the “**Company**”) will sell and issue the Shares (as hereinafter defined) and the Warrant (as hereinafter defined) to Innovative Medical Management Co., Ltd. and/or its designated party (“**Innovative Medical**” or the “**Investor**”) pursuant to the terms and conditions as set forth herein. This Term Sheet is provided on the understanding that it is not exhaustive and is not intended to be legally binding on any person, except as provided under the sections headed “**Confidentiality**”, “**Arbitration and Governing Law**” and “**Exclusivity**” below which are intended to be, and shall be, binding on the parties to this Term Sheet.

Confidentiality

The terms and conditions contained in this Term Sheet (including the existence of this Term Sheet) are confidential information and will not be disclosed by any party except as permitted below. If any party needs to release any such information to any third party, it shall obtain written consent from the other party in advance. In the event of a disclosure required by law, applicable rules or rules of the stock exchange, each party shall make such disclosure at substantially the same time and shall, at a reasonable time before making any such disclosure or filing, consult with the other party regarding such disclosure or filing and, to the extent possible, seek confidential treatment for such portions of the disclosure or filing as may be requested by the other party, provided however that the parties acknowledge such confidential treatment may not be granted by applicable authorities.

Arbitration and Governing Law

Any dispute, controversy, difference or claim arising out of or relating to this Term Sheet, including the existence, validity, interpretation, performance, breach or termination thereof or any dispute regarding non-contractual obligations arising out of or relating to it shall be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre (HKIAC) under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The law of this arbitration clause shall be Hong Kong law. The seat of arbitration shall be in Hong Kong. The number of arbitrators shall be one. The appointing authority shall be the HKIAC. The arbitration proceedings shall be conducted in English.

This Term Sheet and the definitive investment documents shall be governed by and construed in accordance with the laws of Hong Kong, without regard to the principles of conflicts of law thereof.

Seller: Pluristem Therapeutics Inc. (the “**Company**”), a Nevada corporation with its shares of common stock listed on NasdaqCM.

Investor: Innovative Medical Management Co., Ltd. and/or its designated party, provided that if such designated party is not an affiliate of the Investor, the designation shall be agreed in advance by the Company.

Securities:

- Such shares of common stock of the Company equal to approximately 17.30% of the Company’s outstanding common stock as of the date of execution (the “**Execution Date**”) of the definitive investment agreement (the “**Shares**”). To avoid any doubt, the percentage of shareholdings by the Investor will be adjusted based on the actual dollar value of the Investment Amount, the Price as defined herein, and the actual amount of the Company’s outstanding common stock as at the date of the Execution Date.
- warrants:
 - The warrants will entitle the Investor to purchase up to such number of shares of the Company’s common stock as equal to 25% of the number of Shares (the “**Warrant**”). For example, for 16,890,000 Shares issued by the Company to the Investor, the Investor will be entitled to 4,222,500 Warrants.
 - The initial exercise price shall be US\$2.5 per share.
 - The Warrant shall contain a beneficial ownership blocker limiting an exercise of the Warrant that would result in the Investor, together with its designated party, beneficially owning more than 19.99% of the outstanding common stock of the Company. The warrant shall contain customary provisions such as adjustments for dividends and stock splits and fundamental transactions.
 - Unless otherwise provided herein, the exercise period shall start from the six (6) month anniversary of the Execution Date and shall expire on the 5th anniversary of the Execution Date.
 - In the event the closing price of the Company’s common stock is greater than or equal to \$5.00 per share for ten (10) consecutive trading days at any time within thirty (30) months after the six (6) month anniversary of the Execution Date, then the Warrant shall become exercisable in full and the Investor shall exercise the warrants within the timeframe as set forth in the definitive investment agreement; provided, however that if such exercise results in the Investor, or its designated parties, beneficially owning more than 19.99% of the outstanding common stock of the Company, then such exercise shall only occur if the Company has obtained shareholder approval for such issuance.

Price: US\$1.77 per share of common stock (the “**Price**”)

Investment Amount: \$30 million US dollars in aggregate for common shares (using the RMB/US\$ exchange rate to be set out in the definitive investment agreements) (the “**Investment Amount**”), provided that such amount shall not result in the issuance of Shares equal to greater than 19.99% of the outstanding common stock of the Company, and provided that such amount shall not exceed 200 million RMB.

Board of Directors: The Company agrees to take all necessary actions, including without limitation, the adoption of resolutions of its board of directors, to ensure that one director nominee of the Investor will be appointed into the board of directors of the Company upon the closing and will hold office until the first annual meeting of the shareholders of the Company after the closing.

So long as the Investor owns shares representing at least 12.5% of the Company’s outstanding shares on a non-diluted basis, the Investor shall be entitled to nominate one (1) member to the Company’s Board of Directors and the Company shall agree to nominate the Investor’s director nominee at each annual meeting of shareholders of the Company and shall use commercially reasonable best effort to support the successful election of such candidate as a director by the shareholders; provided, however, that the Company’s obligation to nominate such a candidate does not guarantee that such candidate will be elected by the shareholders and the Company shall have no obligation to guarantee such election.

Use of Proceeds:

The proceeds will be used for working capital purposes.

Proposed Timeline:

Both parties agree to use commercially reasonable best efforts to (i) complete the business, legal, IP, and financial due diligence, all to the Investor's reasonable satisfaction; and (ii) enter into definitive investment agreement by December 26, 2016. Notwithstanding the timeline herein, the parties agree to use best efforts to complete the due diligence and, if the due diligence is completed to the Investor's reasonable satisfaction, enter into the definitive investment agreement as soon as practicable and before December 26, 2016.

Both parties agree to use commercially reasonable best efforts to satisfy all the closing conditions.

Closing Conditions:

Closing conditions shall include, among other appropriate or customary conditions:

- Satisfactory completion of business, legal, IP and financial due diligence, all to the Investor's reasonable satisfaction;
 - The Company shall have obtained its internal corporate approval;
 - The Company shall have obtained approval of the issuance of the Shares and Warrant from Nasdaq;
 - The Investor shall have obtained its internal corporate approval;
 - The senior management team and key employees of the Company shall have entered into a confidentiality, non-compete, non-solicitation and invention assignment agreement and an employment agreement containing a commitment of service period in form and substance reasonably satisfactory to the parties; and
 - All requisite PRC regulatory approvals as set forth below shall have been obtained:
 - filing with the provincial counterpart of the PRC National Development and Reform Commission;
 - filing with the provincial counterpart of the PRC Ministry of Commerce;
 - filing with the PRC State Administration of Foreign Exchange or its designated bank authorizing the remittance of consideration out of the PRC.
-

Registration Rights:

The transaction will be consummated through a private investment in public equity, and the Company shall file a registration statement covering the Shares and the shares of common stock underlying the Warrant (the "**Warrant Shares**") with the U.S. Securities and Exchange Commission ("**SEC**") no later than six (6) months after the closing and shall use its reasonable best efforts to have the registration statement declared effective as soon as practicable by the end of such six-month period. The Company shall keep the resale registration statement effective until shares may be sold freely pursuant to Rule 144.

The Company shall pay all fees and expenses for the registration of the shares.

Support to the Company:

The Investor agrees to support the current management of the Company as will be defined and agreed in the definitive investment agreement.

Lock-up:

The Investor may not sell the Shares prior to the six (6) month anniversary of the closing of the definitive investment agreement.

Preemptive Rights:

In the event the Company proposes to offer securities in underwritten equity offerings in the public market or private placements within two and half (2.5) years following the closing date, the Investor shall have the right to purchase up to its pro rata portion of such shares (based on its then beneficial ownership percentage) on the same terms and conditions as the Company proposes to offer such shares, unless otherwise mutually agreed by the Company and the Investor.

Representations and Warranties:

The Company shall make representations and warranties that are customary in transactions of this type in the definitive investment agreement, including without limitation the customary representations and warranties relating to litigations, intellectual property rights and employment-related agreements signed by the senior management and key employees.

The Investor shall make representations and warranties that are customary in transactions of this type in the definitive investment agreement, including without limitations its status as a foreign investor pursuant to Regulation S, its familiarity with SEC Section 16 reporting requirements and its familiarity with SEC rules and regulations.

| | |
|--|--|
| Strategic Cooperation: | <p>During the period commencing on the closing of the definitive investment agreement and concluding on the two (2) year anniversary of the closing of the definitive investment agreement, except for any agreements or relationships existing as of the date of the closing of the definitive investment agreement, if the Company independently seeks to enter into business arrangements in connection with the Company's business development or technology license (the "China Business") in the greater China region (including the Mainland of China, Taiwan, Hong Kong and Macau), the Investor shall have the right of first negotiation with respect to the cooperation on the China Business.</p> <p>Both parties agree to negotiate in good faith to renew such strategic cooperation arrangement after the expiration of the foregoing two-year period.</p> |
| Special Information Rights: | <p>So long as the Investor owns shares representing at least 12.5% of the Company's outstanding shares on a non-diluted basis, the Company shall deliver to the Investor information in connection with the Company's material events, provided, however, that the Investor understands and acknowledges that the delivery of such information shall comply with all relevant laws and regulations, including, but not limited to, the rules and regulations promulgated by the SEC.</p> |
| Continuing Employment of Employees in Israel: | <p>The Company shall make commercially reasonable efforts to retain senior management team and key employees to the extent permissible under the applicable law.</p> |
| Investor Covenant: | <p>The Investor shall agree that, except for the currently contemplated definitive investment agreement, it shall not acquire, or enter into any agreement to acquire, shares of the Company's common stock that would cause the Investor to beneficially own more than 19.99% of the outstanding common stock of the Company, provided that the Investor may become a beneficially owner of more than 19.99% of the outstanding common stock of the Company by acquiring newly-issued shares of the Company if such share issuance is approved by the shareholders of the Company. The Company agrees to use its commercially reasonable best efforts to obtain the approval of its shareholders for such share issuance.</p> |

Exclusivity:

The Company agrees that before the earlier of (i) December 26, 2016, (ii) the signing of the definitive investment agreement, or (iii) notification by the Investor that it does not intend to proceed with the investment contemplated hereunder, the Company and its shareholders, board members, employees and respective affiliates shall not enter into any agreement or arrangement regarding equity financing of the Company at a common stock price per share equal to or less than US\$2.20, without the prior written consent of the other party (the “**No Shop**”); provided, however that no such prior written consent shall be required for an Exempt Issuance. For purposes of this Term Sheet, an “**Exempt Issuance**” shall mean (a) shares of common stock or options to employees, officers or directors of the Company pursuant to any stock or option plan duly adopted for such purpose and (b) securities exercisable or exchangeable for or convertible into shares of common stock issued and outstanding on the date of this Term Sheet, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities.

Termination Fee:

The parties agree to negotiate in good faith to set forth in the definitive investment agreement that a termination fee shall be payable if the definitive investment agreement is terminated due to customary triggering events.

Binding Term Sheet:

This Term Sheet shall become binding in all aspects upon the approval of the Investor's shareholders' meeting, which the Investor anticipates will be held no later than November 9, 2016.

The Investor anticipates the Board of Directors of the Investor will be held no later than October 25, 2016. Upon the approval of the Investor's Board of Directors of this Term Sheet, a written announcement (substantially in the form attached hereto as appendix A) shall be provided to the Company by the Investor. Following such written announcement, both parties will jointly issue a public announcement in accordance with the applicable listing securities rules and securities regulations.

Upon the approval of the Investor's shareholders' meeting of this Term Sheet, a written announcement (substantially in the form attached hereto as appendix B) shall be provided to the Company by the Investor.

Execution

This Term Sheet will be executed in four original copies and each party shall hold two original copies. Emailed or facsimile copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Term Sheet.

AGREED AND ACCEPTED:

COMPANY

PLURISTEM THERAPEUTICS INC.

By: /s/ Zami Aberman
Name: Zami Aberman
Title: Chairman & CEO

INVESTOR

INNOVATIVE MEDICAL MANAGEMENT CO., LTD.

By: /s/ Chen Haijun
Name: Chen Haijun
Title: Chairman

APPENDIX A

To Pluristem Therapeutics Inc.
Pluristem Therapeutics Inc.

Date: _____

Announcement of Approval of Term Sheet

We here by announce that in the meeting of our board of directors which was held at October 25, 2016, the board of directors have approved the Term Sheet.

Innovative Medical Management Co., Ltd.

APPENDIX B

To Pluristem Therapeutics Inc.
Pluristem Therapeutics Inc.

Date: _____

Announcement of Approval of Term Sheet

We here by announce that in the shareholders' meeting which was held at November 9, 2016, the Term Sheet was approved and therefore become binding in all aspects.

Innovative Medical Management Co., Ltd.

TERMSHEET

BY AND BETWEEN
PLURISTEM LTD.
AND

SOSEI CORPORATE VENTURE CAPITAL LTD.

WITH RESPECT TO ESTABLISHMENT AND OPERATION OF A JOINT VENTURE

December 19, 2016

Company / Licensor:

Pluristem Ltd. ("**Pluristem**").

Investor:

Sosei Corporate Venture Capital Ltd. ("**Sosei**").

The Transaction:

The parties shall establish and operate a joint venture in Japan in order to commercialize and bear responsibility for all marketing, distribution, clinical and regulatory development of Pluristem's proprietary PLX-PAD cells based product (The "**Product**") for the Indication (the "**Indication**") in the Territory (the "**Transaction**" and the "**Purpose**").

Establishment of Joint Venture:

The joint venture shall be set up as follows:

1. Pluristem shall establish a wholly owned subsidiary (*Kabushiki Kaisha*) in Japan with nominal capital contribution ("**NewCo**");
2. Pluristem shall contribute a perpetual License (as defined below) to NewCo;
3. Promptly after the establishment of NewCo and the grant of the License, Sosei shall invest and shall cause other investors (together with Sosei, the "**Investors**") to invest an amount of 1.3B Japanese Yen (JPY) in NewCo (out of which 400M JPY will be invested by Sosei), in return to issuance of shares in NewCo to the Investors, so that following such investment Pluristem shall hold 35% and the Investors shall hold 65% of the issued and outstanding share capital (ordinary shares) of NewCo (the "**Investment**"). It is agreed that Sosei will make best effort to secure the Investment in the amount of 1.3B JPY (the "**Investment Amount**").

In the event that NewCo will raise additional funding for the Purpose in excess of the Investment Amount, any additional funding up to a total funding amount of 1.7B JPY will not in any way dilute Pluristem's 35% holdings in NewCo. Mechanics for such structure to be agreed in the Definitive Agreement.

**Board of Directors,
Representative Director and
CEO of the Joint Venture:**

The board of directors of NewCo shall consist of 3 members, 1 to be appointed by Pluristem, 1 to be appointed by Sosei and 1 to be appointed and agreed upon by Pluristem and Sosei. NewCo's representative director and CEO shall be appointed and agreed upon by both Pluristem and Sosei. If additional board seats will be granted, the number of board seats must be mutually agreed upon by both Sosei and Pluristem.

Use of Investment Proceeds:

The funds of the Investment shall be used for the Purpose.

License:

Pluristem shall contribute NewCo a perpetual, free, exclusive, non transferable, non sublicenseable, non assignable license to commercialize the Product for the Indication in the Territory (the "**License**"). It is agreed that NewCo would not pay any payment for the License.

NewCo shall have the right to sublicense the commercial rights of the Product for the Indication in the Territory to a third party, provided that NewCo provides Pluristem with a satisfactory reason for sublicensing and subject to approval by Pluristem. Pluristem shall not deny the sublicense unless the third party is a competitor of Pluristem or the terms and conditions of the deal is not of financial benefit to Pluristem.

An option to license additional Product indications will be granted to NewCo. Terms and conditions will be negotiated and agreed at a mutually agreed time.

Indication:

Critical Limb Ischemia.

Territory:

Japan.

**Manufacturing; Regulation and
Clinical Development; Support:**

Pluristem shall maintain the exclusive right for the manufacturing of the Product. Any and all regulatory filings, registrations and activities (including those performed by NewCo) with respect to the Product for Indication in the Territory (the "**Filings**") shall be owned by NewCo and shall be used by NewCo for the Purpose only.

Pluristem shall provide NewCo with any supportive information required for the Purpose, including any and all clinical and pre-clinical development information (including without limitation any relevant clinical trials information), and the allocation of cost and expenses thereof to be agreed between the parties.

All of NewCo's information, data and documentation, including those related to the Filings, shall be available to Pluristem for any use in relation to its Products for any indication outside the Territory with no limitations and at no cost.

NewCo shall have access to relevant information reasonably related to the Product for the Indication to ensure timely development.

Ownership of Rights:

Any and all proprietary rights in any patents and/or know-how and/or intellectual property rights related to the Product and/or the PLX-PAD cells and any research and/or derivatives thereof, whether currently owned by Pluristem, or developed by Pluristem and/or will be developed by Pluristem and/or NewCo, shall be exclusively owned by Pluristem ("**Pluristem Intellectual Property**").

Pluristem shall grant NewCo with an exclusive, non-transferable, non sub-licensable, royalty-free right to use the Pluristem Intellectual Property to develop and commercialize the Product for the Indication in the Territory for the Purpose.

Pluristem shall have full access to all data, information and know-how developed by NewCo.

NewCo's Obligations:

NewCo shall use commercially reasonable efforts to develop, commercialize and distribute the Product for the Indication in the Territory and to obtain any and all regulatory approvals for the Product at NewCo's sole expense.

Sosei's Obligations

Sosei shall provide NewCo with certain services for no charge.

Costs:

NewCo shall bear and cover any and all direct and indirect costs and expenses related to the Product development and/or commercialization activities.

NewCo shall pay to Pluristem an amount to be negotiated in good faith and agreed upon in the Definitive Agreement (as defined below) for supplies of the Product from Pluristem or its designee.

Earn Out Payments: NewCo shall pay to Pluristem earn out fees out of the amounts billed for sales of the Product by NewCo or any of its affiliates to third parties at a rate to be negotiated in good faith and agreed upon in the Definitive Agreement.

Reports and Audit Rights: NewCo will provide quarterly or more frequent reports with respect to commercialization and sales of the Product. The content and delivery schedule of such report shall be defined in the Definitive Agreement.

Pluristem shall have audit rights with respect to NewCo's books and records as will be defined in the Definitive Agreement.

Term and Termination: The term of the Definitive Agreement shall commence as of the execution thereof and shall continue as shall be set forth in the Definitive Agreement. Rights of termination shall be set forth in the Definitive Agreement, including in case that the development and commercialization are not completed within a period to be agreed upon in the Definitive Agreement.

Definitive Agreement and Conditions to Closing: In addition to the terms and conditions referred to in this Term Sheet, the definitive agreement(s) for the Transaction (the "**Definitive Agreement**") will contain terms and conditions of the License, sale of Products to NewCo as well as customary provisions, including representations and warranties and matters for which Pluristem has veto rights, appropriate for a transaction of the type contemplated herein.

The approval of the Israel Innovation Authority (previously known as Office of Chief Scientist) at the Israeli Ministry of Economy and Industry will be required for the closing of the Transaction.

Termination of Negotiations and Approval Process: Each party shall be under no obligation to proceed with the Transaction at any time, and for any reason whatsoever, until the Definitive Agreements are duly executed, and either party shall bear no liability whatsoever in the event it decides, at any time and for any reason, not to proceed with the Transaction or the execution of the Definitive Agreement. Moreover, the approvals of the respective board of directors of the parties for the Transaction and the Definitive Agreement (which is at the full discretion of the respective board of directors) will be a condition to execution of the Definitive Agreement. For the sake of removal of all doubt, either party shall bear no liability whatsoever in the event that its respective board of directors decides, for any reason, not to approve the Transaction or the Definitive Agreement.

Timing and Expenses:

The parties shall, in good faith, use all reasonable commercial efforts to negotiate and execute the Definitive Agreement by March 31, 2017. The parties may extend this period by mutual written consent.

Transaction Costs:

Each party shall bear its own transaction related expenses.

Press Release:

Prior to the execution of the Definitive Agreement and except as required for compliance with applicable regulatory or other legal requirements, the parties shall refrain from, directly or indirectly, making any release to the press or other public disclosure, with respect to either the fact that discussions or negotiations are taking place concerning the Transaction or the existence or contents of this Term Sheet or the Definitive Agreement, except for such releases or disclosures as shall be mutually agreed upon by the parties in writing. However, it is acknowledged by the parties that where circumstances arise following the date of this Term Sheet which require disclosure by either party in order to comply with applicable legal or regulatory requirements, such party shall so inform the other party, but any such disclosure, its form and content shall be at the sole discretion of the disclosing party.

Confidentiality:

The discussions in connection with the Transaction as well as any confidential information exchanged in connection with such discussions shall be subject to the terms and conditions of the Non-Disclosure and Confidentiality Agreement dated July 26, 2016 executed between Pluristem and Sosei.

Binding Effect:

This Term Sheet shall represent a binding expression of interests between the parties, subject to successfully securing the Investment amount of 1.3B JPY.

Other than the sections regarding "Press Release", "Confidentiality" and "Governing Law and Jurisdiction" the conditions within this Term Sheet may be modified by mutual consent.

Governing Law and Jurisdiction:

This Term Sheet shall be governed by and construed according to the laws of the State of New York, and the competent courts of the State of New York shall have exclusive jurisdiction over any and all matters in connection hereof.

Pluristem Ltd.

By: /s/ Zami Aberman
Name: Zami Aberman
Title: Chairman and CEO

Sosei Corporate Venture Capital Ltd.

By: /s/ Hidetoshi Torami
Name: Hidetoshi Torami
Title: Representative Director

CERTIFICATION

I, Zami Aberman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pluristem Therapeutics Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) of the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2017

/s/ Zami Aberman

Zami Aberman
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Yaky Yanay, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pluristem Therapeutics Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) of the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2017

/s/ Yaky Yanay

Yaky Yanay
Chief Financial Officer, Chief Operating Officer and President
(Principal Financial Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report (the "Report") of Pluristem Therapeutics Inc. (the "Company") on Form 10-Q for the period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof, I, Zami Aberman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 8, 2017

By: /s/ Zami Aberman

Zami Aberman
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report (the "Report") of Pluristem Therapeutics Inc. (the "Company") on Form 10-Q for the period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof, I, Yaky Yanay, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 8, 2017

By: /s/ Yaky Yanay

Yaky Yanay
Chief Financial Officer, Chief Operating Officer and President
