Neuralstem, Inc.
Form 10QSB
November 13, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)

x **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2007

Or

¨ **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 000-1357459

Neuralstem, Inc.
(Name of small business issuer in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**52-2007292** **(I.R.S. Employer Identification No.)**
9700 Great Seneca Highway, Rockville, Maryland **(Address of principal executive offices)**	**20850** **(Zip Code)**

Issuer's telephone number: (301) 366-4841

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

As of October 25, 2007 there were 30,037,744 shares of common stock, $.01 par value, issued and outstanding.

Neuralstem, Inc.

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NEURALSTEM, INC.
BALANCE SHEET
(UNAUDITED)

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash	$ 5,346,177	$ 1,807,041
Prepaid expenses	138,533	32,848
Due to/From Grant		6,043
Total current assets	5,484,710	1,845,932
Property and equipment, net	86,750	32,515
Other assets	43,272	35,940
Intangible assets, net	23,709	18,239
Total assets	$ 5,638,441	$ 1,932,626
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Note payable, current portion	$ 8,114	
Accounts payable and accrued expenses	857,475	351,962
Total current liabilities	865,589	351,962
Note payable, long-term portion	14,456	28,395
Total liabilities	880,045	380,357
STOCKHOLDERS' EQUITY		
Common stock	300,227	260,116
Additional paid-in capital	47,219,997	39,734,878
Common stock payable		150,000
Accumulated deficit	(42,761,828)	(38,592,725)
Total stockholders' equity	4,758,396	1,552,269
Total liabilities and stockholders' equity	$ 5,638,441	$ 1,932,626

See accompanying notes to financial statments.

NEURALSTEM, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2007	2006	2007	2006
Revenues	$ 45,733	$ 150,072	$ 306,057	$ 209,283
Operating expenses				
Research and development costs	672,101	422,794	2,202,670	1,247,386
General, selling and administrative expenses	832,348	311,932	2,359,515	763,664
Depreciation and amortization	22,403	12,154	48,365	38,942
Total Operating expenses	1,526,852	746,880	4,610,550	2,049,992
Operating loss	(1,481,119)	(596,808)	(4,304,493)	(1,840,709)
Nonoperating income (expense)				
Interest	59,397	24,218	136,358	61,381
Interest expense	(298)	(394)	(968)	(9,090)
Reversal of loss related to adjustment of warrants liability to fair value	-	388,401	-	-
Other expense	-	(26,505)	-	(56,320)
Total nonoperating income (expense)	59,099	385,720	135,390	(4,029)
Net loss	$ (1,422,020)	$ (211,088)	$ (4,169,103)	$ (1,844,738)
Net loss per share, basic and diluted	$ (0.05)	$ (0.01)	$ (0.15)	$ (0.08)
Average number of shares of common stock outstanding	29,372,895	25,608,272	28,370,589	24,591,149

See accompanying notes to financial statments.

NEURALSTEM, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
For the period from December 31, 2006 through September 30, 2007

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Common Stock Payable	Additional Paid-In Capital	Accum. Deficit	Total
Balance at December 31, 2006	-	$ -	26,011,605	$ 260,116	$ 150,000	$ 39,734,878	$ (38,592,725)	$ 1,552,269
Issuance of common stock for satisfaction of of common stock payable			300,000	3,000	(150,000)	147,000		-
Issuance of common stock related to exercise of warrants, $0.05 exercise price per share			69,000	690		2,760		3,450
Issuance of common stock related to exercise of warrants, $0.50 exercise price per share			100,000	1,000		49,000		50,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.50 exercise price per share			201,500	2,015		300,235		302,250
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.00 exercise price per share			25,000	250		49,750		50,000

Issuance of common stock related to Private Placement Offering, net of $440,100 in offering related expenses, $2.50 per share	2,054,000	20,540	4,674,360	4,694,900
Issuance of common stock related to Private Placement Offering, net of $80,300 in offering related expenses, $2.50 per share	400,000	4,000	915,700	919,700
Vesting of officer/directors stock options for 395,128 shares of common stock, $1.08 fair value per share			427,099	427,099
Vesting of warrants for 19,789 shares of common stock, $2.33 fair value per share			46,224	46,224
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.50 exercise price per share	56,000	560	83,440	84,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $0.05 exercise price per share	4,000	40	160	200
Issuance of common stock related to				

exercise of warrants related to Private Placement Offering, $1.10 exercise price per share	19,245	192	20,977	21,170
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.20 exercise price per share	50,000	500	99,500	100,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $0.50 exercise price per share	330,000	3,300	161,700	165,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.00 exercise price per share	50,000	500	99,500	100,000
Issuance of common stock related to exercise of warrants related to Private Placement of warrants, net cash exercise	339,394	3,394	(3,394)	(0)
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $3.00 exercise price per share	13,000	130	38,870	39,000

Vesting of officer/directors stock options for Quarter III						372,238		372,238
Net loss							(4,169,103)	(4,169,103)
Balance at September 30, 2007	-	-	30,022,744	$ 300,227	$ -	$ 47,219,997	$ (42,761,828)	$ 4,758,396

See accompanying notes to financial statements

NEURALSTEM, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net loss	$ (4,169,103)	$ (1,844,738)
Adjustment to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	48,365	38,943
Stock and warrant based compensation	845,561	61,360
Changes in assets and liabilities:		
Prepaid expenses	(105,685)	(37,831)
Other assets	(1,289)	(36,306)
Accounts payable and accrued expenses	505,513	(410,593)
Deferred compensation	-	(192,620)
Net cash used in operating activities	(2,876,638)	(2,421,785)
Cash flow from investing activities:		
Capital outlay for intangible assets	(6,890)	-
Purchase of property and equipment	(101,179)	(44,893)
Net cash used in investing activities	(108,069)	(44,893)
Cash flows from financing activities:		
Issuance of common stock	6,529,670	4,550,000
Payments on notes payable	(5,825)	(123,307)
Net cash provided by financing activities	6,523,845	4,426,693
Net increase in cash	3,539,138	1,960,015
Cash, beginning of period	1,807,041	526,381
Cash, ending of period	$ 5,346,179	$ 2,486,396

See accompanying notes to financial statments.

Note 1. Basis of Presentation

The accompanying unaudited financial statements of Neuralstem, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States and the rules and regulations of the Securities and Exchange Commission (the "SEC"), for interim financial information. Therefore, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

The interim financial statements are unaudited, but in the opinion of management all adjustments, consisting only of normal recurring accruals, considered necessary to present fairly the results of these interim periods have been included. The results of the Company's operations for any interim period are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Note 2. Significant Accounting Policies and Recent Accounting Pronouncements

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ significantly from those estimates.

Revenue Recognition

Our revenue recognition policies are in accordance with the SEC's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements.* Our revenue is derived primarily from providing treated samples for gene expression data from stem cell experiments, from providing services under various grant programs and through the licensing of the use of our intellectual property. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery of goods and services has occurred, the price is fixed and determinable, and collection is reasonably assured.

Research and Development

Research and development costs are charged to expense as they are incurred.

Loss per Common Share

Basic loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share adjusts basic loss per share for the potentially dilutive effects of shares issuable under our stock option plan, using the treasury stock method. Common equivalent shares from the exercise of stock options and warrants are excluded from the computation of diluted loss per share as their effect is antidilutive.

STOCK-BASED COMPENSATION

We have granted stock-based compensation awards to employees and board members. Awards may consist of common stock, warrants, or stock options. Our stock options and warrants have a ten year life. The stock options or warrants vest either upon the grant date or over varying periods of time. The stock options we grant provide for option exercise prices equal to or greater than the fair market value of the common stock at the date of the grant.

During the nine months ended September 30, 2007 we granted 653,333 options and 3,000,000 warrants. In the similar period ended September 30, 2006 we granted no options or warrants. We accrue related compensation expenses as our options vest in accordance with SFAS123(R), *Share-Based Payment.* We recognized $845,561 and $61,360 stock-based compensation expense during the nine months ended September 30, 2007 and 2006, respectively, from the vesting of stock options or warrants.

A summary of stock option activity during the nine months ended September 30, 2007 and related information is included in the table below:

	Number of Options	**Weighted-Average Exercise Price**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2007	2,400,000	$ .50	1,180,836
Granted	653,333	3.08	962,364
Exercised	-		
Forfeited	-		
Outstanding at September 30, 2007	3,053,333	$ .72	$ 2,143,200
Exercisable at September 30, 2007	1,327,500	$ .88	$ 1,169,714

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109"* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *"Accounting for Income Taxes,"* and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on subsequent derecognition of tax positions, financial statement classification, recognition of interest and penalties, accounting in interim periods, and disclosure and transition requirements. The Company adopted the provisions of FIN 48 on January 1, 2007.

The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expense. No amounts were accrued for the payment of interest and penalties at January 1, 2007. The Company's adoption of FIN 48 did not have a material effect on the Company's financial condition, results of operations or cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *"Fair Value Measurements"* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company is currently evaluating the requirements of SFAS 157; however, it does not believe that its adoption will have a material effect on its financial statements.

In February 2007, the FASB issued Statement No. 159, "The *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115"* (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159's objectives are to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS 159 will have on its financial statements.

In June 2007, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities."* The guidance in EITF Issue 07-3 requires the Company to defer and capitalize nonrefundable advance payments made for goods or services to be used in research and development activities until the goods have been delivered or the related services have been performed. If the goods are no longer expected to be delivered nor the services expected to be performed, the Company would be required to expense the related capitalized advance payments. The consensus in EITF Issue 07-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2007 and is to be applied prospectively to new contracts entered into on or after December 15, 2007. Early adoption is not permitted. Retrospective application of EITF Issue 07-3 is also not permitted. The Company intends to adopt EITF Issue 07-3 effective January 1, 2008. The impact of applying this consensus will depend on the terms of the Company's future research and development contractual arrangements entered into on or after December 15, 2007.

Note 3. Stockholders' Equity

During the third quarter of 2007, the Company raised $509,370 through conversion of warrants and stock options previous issued by the company. The company issued a total of 861,639 shares to the converting option and warrant holders at prices ranging from $.05 to $3.00

During September 2007, the Company granted 333,333 options on shares of common stock to the Company's Chief Scientific Officer and Chairman of the Board as an incentive for this officer's continued employment. The options vest in October 2011. The Company valued these warrants using the Black-Scholes option pricing model using the following assumptions: exercise price of $3.00, term of 4.5 years, volatility rate of 90% and discount rate of 4.25%. The total value of these warrants will be expensed over the vesting period. The company will begin to record the expense related to the options in October 2007.

ADVISEMENT

Unless the context requires otherwise, "*Neuralstem*," "*the company*," "*we*," "*us*," "*our*" and similar terms refer to Neuralste Inc. Our common stock, par value $.01 per share is commonly referred to in this quarterly report as our "*common shares*." The information contained herein is current as of the date of this quarterly report (September 30, 2007), unless another date is specified.

We prepare our interim financial statements in accordance with United States generally accepted accounting principles. Our financial condition and results of operations for the three-month interim period ended September 30, 2007 are not necessarily indicative of our prospective financial condition and results of operations for the pending full fiscal year ending December 31, 2007. The interim financial statements presented in this quarterly report as well as other information relating to our company contained in this quarterly report should be read in conjunction and together with any reports, statements and information filed by us with the United States Securities and Exchange Commission ("SEC").

FORWARD LOOKING STATEMENTS

In this quarterly report we make a number of statements, referred to as "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to use and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. You can generally identify forward looking statements through words and phrases such as *"believe," "expect," "seek," "estimate," "anticipate," "intend," "plan," "budget," "project," "may likely result," "may be," "may continue"* and other similar expressions.

When reading any forward-looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by such statement for a number of reasons or factors, including but not limited to:

- the success of our research and development activities, the development of a viable commercial production model, and the speed with which regulatory authorizations and product launches may be achieved;
- whether or not a market for our product develops and, if a market develops, the rate at which it develops;
- our ability to successfully sell our products if a market develops;
- our ability to attract and retain qualified personnel to implement our growth strategies;
- our ability to develop sales, marketing, and distribution capabilities;
- our ability to obtain reimbursement from third party payers for the products that we sell;
- the accuracy of our estimates and projections;
- our ability to fund our short-term and long-term financing needs;

- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the section captioned “Risk Factors”

Each forward-looking statement should be read in context with and in understanding of the various other disclosures concerning our company and our business made elsewhere in this report as well as our public filings with the Securities and Exchange Commission. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statements contained in this report or any other filing to reflect new events or circumstances unless and to the extent required by applicable law.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PLAN OF OPERATION

General

The following discussion of our financial condition and results of operations should be read in conjunction with (1) our unaudited interim financial statements and their explanatory notes included as part of this quarterly report, and (2) our audited annual financial statements and explanatory notes for the year ended December 31, 2006 as filed with the SEC, and as it may be amended.

This quarterly report contains forward-looking statements that involve risks and uncertainties. See ″Risk Factors″ set forth on page 16 of this report for a more complete discussion of these factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Neuralstem is focused on the development and commercialization of treatments based on transplanting human neural stem cells.

We have developed and maintain a portfolio of patents and patent applications that form the proprietary base for our research and development efforts in the area of neural stem cell research. We own or exclusively license four (4) issued patents and twelve (12) patent pending applications in the field of regenerative medicine and related technologies. We believe our technology base, in combination with our know-how, and collaborative projects with major research institutions provides a competitive advantage and will facilitate the successful development and commercialization of products for use in the treatment of a wide array of neurodegenerative conditions and in regenerative repair of acute disease.

This is a young and emerging field. There can be no assurances that our intellectual property portfolio will ultimately produce viable commercialized products and processes. Even if we are able to produce a commercially viable product, there are strong competitors in this field and our product may not be able to successfully compete against them.

All of our research efforts to date are at the level of basic research or in the pre-clinical stage of development. We are focused on leveraging our key assets, including our intellectual property, our scientific team, our facilities and our capital, to accelerate the advancement of our stem cell technologies. In addition, we are pursuing strategic collaborations with members of academia. We are headquartered in Rockville, Maryland.

In addition to our core tissue based technology we have begun developing a Small-Molecule compound. The company has performed preliminary *in vitro* and *in vivo* tests on the compound with regard to neurogenesis. Based on the results of these tests we have applied for a U.S. patent on the compound.

Technology

Our technology is the ability to isolate human neural stem cells from most areas of the developing human brain and spinal cord and our technology includes the ability to grow them into physiologically relevant human neurons of all types. Our two issued core patents entitled: (i) *Isolation, Propagation, and Directed Differentiation of Stem Cell from Embryonic and Adult Central Nervous System of Mammals*; and (ii) *In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multi-potential CNS Stem Cell* contain claims which cover the process of deriving the cells and the cells created from such process.

What differentiates our stem cell technology from others is that our patented processes do not require us to "push" the cells towards a certain fate by adding specific growth factors. Our cells actually "become" the type of cell they are fated to be. We believe this process and the resulting cells create a technology platform that allows for the efficient isolation and ability to produce, in commercially reasonable quantities, neural stem cells from the human brain and spinal cord.

Our technology allows for cells to grow in cultured dishes, also known as *in vitro* growth, without mutations or other adverse events that would compromise their usefulness.

Research

We have devoted substantial resources to our research programs in order to isolate and develop a series of neural stem cell banks that we believe can serve as a basis for therapeutic products. Our efforts to date have been directed at methods to identify, isolate and culture large varieties of stem cells of the human nervous system, and to develop therapies utilizing these stem cells. This research is conducted both internally and through the use of third party laboratory consulting companies under our direct supervision.

As of October 25, 2007, we had 5 full-time and 1 part-time employees. Of these employees, two are directly involved in research and development activities and four are engaged in business development and administration. We also use the services of numerous outside consultants in business and scientific matters. We believe that we have good relations with our employees and consultants.

Trends & Outlook

Revenue: Our revenue is currently derived from grant reimbursements and licensing fees. As our focus is now on pre-clinical work in anticipation of entering clinical trials in 2007, we are not concentrated on increasing revenue. Additionally, since we completed work with regard to our current grants, we will have no more grant revenue for the remainder of this year.

Long-term, we anticipate that grant revenue as a percentage of overall revenue will decrease and our revenue will be derived primarily from licensing fees and the sale of our cell therapy products. At present, we are in our pre-clinical stage of development and as a result, we can not accurately predict when or if we will be able to produce a product for commercialization. Accordingly, we cannot accurately estimate when such a change in revenue composition will occur or if it will ever occur.

Research & Development Expense: Our research and development expenses consist primarily of costs associated with basic and pre-clinical research, exclusively in the field of human neural stem cell therapies and regenerative medicine, related to our clinical cell therapy candidates. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. The cost of our research and development personnel is the most significant category of expense. However, we also incur expenses with third parties, including license agreements, third-party contract services, sponsored research programs and consulting expenses.

We do not segregate research and development costs by project because our research is focused exclusively on human stem cell therapies as a unitary field of study. Although we have different areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will continue to increase in the foreseeable future as we add personnel, expand our pre-clinical research (animal surgeries, manufacturing of cells, and in vitro characterization of cells which includes testing and cell quality control), begin clinical trial activities, increase our regulatory compliance capabilities, and ultimately begin manufacturing.

In the third Quarter of 2006 we retained Quintiles, Inc. to assist with regulatory compliance, preparation of our first IND application, and patient enrollment for our first human trial. While recruitment for the trial cannot commence until we have received an FDA approved protocol, much of the infrastructure required must be developed and in place

well in advance. For instance, we can begin to identify, contact, and educate prospective patients as well as the treatment community prior to commencing these trials.

Additionally, we anticipate hiring 5 additional technical personnel to assist with various grant and collaborative work. With regard to material and personnel costs, as the industry continues to mature and grow, we have seen increased demand for qualified personnel and suitable materials. Notwithstanding, we feel that our outsource model will provide us with some protection regarding fluctuating pricing.

Although we feel the above increase in personnel will be sufficient for our short term needs, the amount of monetary increases stemming from increased personnel and expenses as we move from pre-clinical to clinical state is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics underdevelopment by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from commercializing products, partnering with others in the biotechnology industry, or licensing the technologies associated with these programs to third parties.

We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects and bring any proposed products to market. The use of human stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. The costs to complete such clinical trials could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. At a minimum, we estimate that a trial for an individual indication such as Ischemic Spastic Paraplegia will require at least 10 to 12 patients at an estimated cost of $100,000 to $150,000 per patient. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties evaluating the trial results. Any delay in completion of a trial would increase the cost of that trial, which would harm our operating results. Due to these uncertainties, we cannot reasonably estimate the size, nature, nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent, we will receive cash inflows from resulting products.

General and Administrative Expenses: Our general and administrative expenses consist of the general costs, expenses and salaries for the operation and maintenance of our business. We anticipate that general and administrative expenses will increase as we progress from pre-clinical to a clinical phase.

On August 27, 2007, our common stock became listed on the American Stock Exchange (“AMEX”) under the ticker symbol “CUR.” As a result of the listing, and the additional costs associated with Sarbanes Oxley compliance, we anticipate an increase in our historical general and administrative expenses relating to professional services (legal, accounting, audit) as well as internal costs associated with such compliance.

We anticipate that general and administrative expense related to our core business will increase at a slower rate than that of similar companies making such transition do in large part to our outsourcing model.

Significant Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 2 of the Notes to Consolidated Financial Statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: (1) we are required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on our financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of

operations. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Use of Estimates --These financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, our management has estimated the expected economic life and value of our licensed technology, our net operating loss for tax purposes and our stock, option and warrant expenses related to compensation to employees and directors, consultants and investment banks. Actual results could differ from those estimates.

Revenue Recognition --Our revenue, to date, has been derived primarily from providing treated samples for gene expression data from stem cell experiments and from providing services as a subcontractor under federal grant programs. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery of goods and services has occurred, the price is fixed and determinable, and collection is reasonably assured.

Intangible and Long-Lived Assets --We follow SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. During the period ended December 31, 2005 no impairment losses were recognized.

Research and Development Costs --Research and development costs consist of expenditures for the research and development of patents and technology, which are not capitalizable and charged to operations when incurred. Our research and development costs consist mainly of payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants.

Stock Based Compensation --Beginning in 2006, we adopted SFAS No. 123R “Share Based Payment” which superseded APB Opinion No. 25. SFAS No. 123R requires compensation costs related to share-based payment transactions to be recognized in the financial statements. We do not believe the adoption of SFAS No. 123R will have a material impact on our financial statements.

RESULTS OF OPERATIONS

Summary Income Statement for the Three Months Ended September 30, 2007 & 2006

	Three Months Ended September 30, 2007	2006
Revenues	45,733	150,071
Operating Expenses	1,526,862	746,880
Operating Loss	(1,481,119)	(596,808)
Non-operating income (expense)	59,099	385,720
Net Loss	(1,422,020)	(211,088)

RESULTS OF OPERATIONS

Result of Operations for the Three Months ending September 30, 2006 and 2007

Revenues for the three months ended September 30, 2007 and 2006 were $45,733 and $150,071 respectively. These amounts include grant reimbursements of $15,733 and sales of our cells (tissue products) of $30,000 for the three months ending September 30, 2007. All revenue in 2006 was from grant reimbursements.

Research and development expenses for the three months ended September 30, 2007 and 2006 were $672,101 and $422,794, respectively. The increase in expenses in the current period consists mainly of payroll and payroll related

expenses, stock option expense, research supplies and costs incurred in connection with specific research grants.

General and administrative expenses for the three months ended September 30, 2007 and 2006 were approximately $832,348, and $311,932, respectively. The principal increase in expenses in 2007 versus 2006 is a result of increased payroll, legal (both patent and corporate), stock option expenses and the establishment of an accrual for a management incentive program.

Other income (expense) for the three months ended September 30, 2007 and 2006 were approximately $59,099, and $385,720, respectively. The quarter ended September 30, 2006 includes a $388,401 reversal of liability for the issuance of new warrants related to covenants in that year's issuance of common stock. Other expense in 2006 was $2,681 net of the effect of the reversal. The increase in 2007 relates to interest income derived from our higher cash deposit balance compared to prior period.

With regard to the forgoing expenses, we have adjusted year to date expense classifications in order to make them consistent with those used in the current period.

Net loss for the three months ended September 30, 2007 and 2006 was approximately $1,422,020 and $ 211,088, respectively.

Result of Operations for the nine months ending September 30, 2007 and 2006

Revenues for the nine month period ending September 30, 2007 and 2006 were approximately $ 306,057 and $209,283, respectively. The increase in revenue is due to a licensing agreement, cell sales, and the substantial completion of a NIH grant in 2007.

Research and development expenses for the nine month period ending September 30, 2007 and 2006 were approximately $2,202,670 and $1,247,386, respectively. The increase in expenses in the current period consists mainly of payroll and payroll related expenses, stock option expense, research supplies and costs incurred in connection with our current effort to produce preclinical data which results in animal surgeries, manufacturing of cells, and in vitro characterization of cells which includes testing and cell quality control.

General and administrative expenses for the nine month period ending September 30, 2007 and 2006 were approximately $2,359,515 and $763,664, respectively. The principal increase in expenses in the current period versus the same period last year is a result of increases in professional fees and expenses related to accountants, legal and business advisors, stock option expense and the introduction of an incentive bonus plan.

Non-operating income (expense) for the nine month period ending September 30, 2007 and 2006 were $135,390, and $(4,029), respectively. The largest factor influencing the increase in 2007 relates to interest income derived from our higher cash deposit balance compared to the same period in 2006.

With regard to the forgoing expenses, we have adjusted year to date expense calssifications in order to make them consistent with those used in the current period.

Net loss for the nine month period ending September 30, 2007 and 2006 was approximately $4,169,103, and $1,844,738, respectively. The increased loss in the current periods is the result of the foregoing factors discussed.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109"* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *"Accounting for Income Taxes,"* and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on subsequent

derecognition of tax positions, financial statement classification, recognition of interest and penalties, accounting in interim periods, and disclosure and transition requirements. The Company adopted the provisions of FIN 48 on January 1, 2007.

The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expense. No amounts were accrued for the payment of interest and penalties at January 1, 2007. The Company's adoption of FIN 48 did not have a material effect on the Company's financial condition, results of operations or cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *"Fair Value Measurements"* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company is currently evaluating the requirements of SFAS 157; however, it does not believe that its adoption will have a material effect on its financial statements.

In February 2007, the FASB issued Statement No. 159, "The *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115"* (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159's objectives are to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS 159 will have on its financial statements.

In June 2007, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities."* The guidance in EITF Issue 07-3 requires the Company to defer and capitalize nonrefundable advance payments made for goods or services to be used in research and development activities until the goods have been delivered or the related services have been performed. If the goods are no longer expected to be delivered nor the services expected to be performed, the Company would be required to expense the related capitalized advance payments. The consensus in EITF Issue 07-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2007 and is to be applied prospectively to new contracts entered into on or after December 15, 2007. Early adoption is not permitted. Retrospective application of EITF Issue 07-3 is also not permitted. The Company intends to adopt EITF Issue 07-3 effective January 1, 2008. The impact of applying this consensus will depend on the terms of the Company's future research and development contractual arrangements entered into on or after December 15, 2007.

Liquidity and Capital Resources

We are financing our operations primarily with the proceeds from the private placement of our securities and the exercise of investor warrants. During the nine months ended September 30, 2007, we raised $5,614,600, through the private placement of our securities. In addition, we raised an additional $1,026,069 as a result of warrant exercises from our current investors. To a substantially lesser degree, financing of our operations is provided through grant funding, payments received under license agreements, sales of our cells (tissue), and interest earned on cash and cash equivalents. Payments received by way of our grants, cell sales and licensing agreements were $231,057, for the nine months ended September 30, 2007. Interest earned on cash and cash equivalents equaled $136,358.

We have incurred substantial net losses each year since inception as a result of research and development and general and administrative expenses in support of our operations. We anticipate incurring substantial net losses in the future.

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Cash, cash equivalents, and cash held at September 30, 2007 was $5,346,176. Cash, cash equivalents, and cash at December 31, 2006 was approximately $1,807,041. The increase in the current period is the result of the above described factors, net of amounts spent for payment of notes and accounts payable, increased legal and accounting fees, fees paid to the placement agent, and increases in other research and development and general and administrative expenses.

Our cash and cash equivalents are limited. We expect to require substantial additional funding. Our future cash requirements will depend on many factors, including the pace and scope of our research and development programs, the costs involved in filing, prosecuting, maintaining and enforcing patents and other costs associated with commercializing our potential products. We intend to seek additional funding primarily through public or private financing transactions, and, to a lesser degree, new licensing or scientific collaborations, grants from governmental or other institutions, and other related transactions. If we are unable to raise additional funds, we will be forced to either scale back our business efforts or curtail our business activities entirely. Our currently monthly cash burn rate is $400,000. We anticipate that our available cash and expected income will be sufficient to finance most of our current activities for at least the next 12 months from September 30, 2007, although certain of these activities and related personnel may need to be reduced.

Additionally, in the event we are able to file a successful Investigative New Drug Application (“IND”) with the FDA, we anticipate we will enter clinical trials in the first quarter of 2008. In the event of such trials, we would incur additional expenses associated with such trials which are estimated to exceed $1,000,000. Assuming our current monthly cash burn rate of $400,000, the increased expense from regulatory compliance and personnel required for the pre-trial and clinical trial work, as well as the estimated cost of the trial, our cash on hand is sufficient to finance our current operations, pre-clinical and clinical work for at least nine months from September 30, 2007. We cannot assure you that public or private financing or grants will be available on acceptable terms, if at all. Several factors will affect our ability to raise additional funding, including, but not limited to, the volatility of our common shares.

UNCERTAINTIES AND OTHER RISK FACTORS THAT MAY AFFECT OUR FUTURE RESULTS AND FINANCIAL CONDITION

We have described below a number of uncertainties and risks which, in addition to uncertainties and risks presented elsewhere in this quarterly report, may adversely affect our business, operating results and financial condition. The uncertainties and risks enumerated below as well as those presented elsewhere in this quarterly report should be considered carefully in evaluating our company and our business and the value of our securities.

Risks Relating to the Company's Stage of Development

Since the Company has a limited operating history and has significantly shifted its operations and strategies since inception, you cannot rely upon the Company's limited historical performance to make an investment decision.

Since inception in 1996 and through September 30, 2007, the Company has raised in aggregate, approximately $47,520,224 capital and recorded accumulated losses totaling $ 42,761,828. On September 30, 2007, the Company had a working capital surplus of $4,619,121 and stockholder's equity of $4,758,396. Our net losses for the two most recent fiscal years have been $3,147,488 and $1,651,507for 2006 and 2005 respectively. Our net loss for the nine month period ended September 30, 2007 was $4,169,102. Revenues for the nine months ended September 30, 2007 were $306,057.

The Company's ability to generate revenues and achieve profitability depends upon its ability to complete the development of its stem cell products, obtain the required regulatory approvals, manufacture, and market and sell its products. In part because of the Company’s past operating results, no assurances can be given that the Company will be able to accomplish all or any these goals.

Although the Company has generated some revenue to date, the Company has not generated any revenue from the commercial sale of its proposed stem cell products. Since inception, the Company has engaged in several related lines of business and has discontinued operations in certain areas. For example, in 2002, the Company lost a material contract with the Department of Defense and was forced to close its principal facility and lay off almost all of its employees in an attempt to focus the Company’s strategy on its stem cell technology. This limited and changing history may not be adequate to enable you to fully assess the Company's current ability to develop and commercialize its technologies and proposed products, obtain approval from the U.S. Food and Drug Administration (“FDA”), achieve market acceptance of its proposed products and respond to competition. No assurances can be given as to exactly when, if at all, the Company will be able to fully develop, commercialize market, sell and derive material revenues from its proposed products in development.

The Company will need to raise additional capital to continue operations, and failure to do so will impair the Company's ability to fund operations, develop its technologies or promote its products.

The Company has relied almost entirely on external financing to fund operations. Such financing has historically come primarily from the sale of common and preferred stock and convertible debt to third parties, the exercise of investor warrants and to a lesser degree from grants, loans and revenue from license and royalty fees. The Company anticipates, based on current proposed plans and assumptions relating to its operations (including the timetable of, and costs associated with, new product development) and financings the Company has undertaken prior to the date of this quarterly report, that its current working capital will be sufficient to satisfy contemplated cash requirements for approximately nine months, assuming that the Company does not engage in an extraordinary transaction or otherwise face unexpected events or contingencies, any of which could effect cash requirements. As of September 30, 2007, the Company had cash and cash equivalents on hand of $5,346,176. Presently, the Company has a monthly cash burn rate of approximately $400,000. Accordingly, the Company will need to raise additional capital to fund anticipated operating expenses and future expansion after such period. Among other things, external financing will be required to cover the further development of the Company's technologies and products and other operating costs. The Company cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. If additional financing is not available when required or is not available on acceptable terms, the Company may be unable to fund operations and planned growth, develop or enhance its technologies, take advantage of business opportunities or respond to competitive market pressures. Any negative impact on the Company's operations may make capital raising more difficult and may also resulting a lower price for the Company's securities.

The Company may have difficulty raising needed capital in the future as a result of, among other factors, the Company's limited operating history and business risks associated with the Company.

The Company's business currently generates limited amounts of cash which will not be sufficient to meet its future capital requirements. The Company's management does not know when this will change. The Company has expended and will continue to expend substantial funds in the research, development and clinical and pre-clinical testing of the Company's stem cell technologies and products. The Company will require additional funds to conduct research and development, establish and conduct clinical and pre-clinical trials, commercial-scale manufacturing arrangements and to provide for the marketing and distribution. Additional funds may not be available on acceptable terms, if at all. If adequate funds are unavailable from any available source, the Company may have to delay, reduce the scope of or eliminate one or more of its research, development or commercialization programs or product launches or marketing efforts which may materially harm the Company's business, financial condition and results of operations.

The Company's long term capital requirements are expected to depend on many factors, including:

· continued progress and cost of its research and development programs;

· progress with pre-clinical studies and clinical trials;

· time and costs involved in obtaining regulatory clearance;

· costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;

· costs of developing sales, marketing and distribution channels and its ability to sell the Company's stem cell products;

· costs involved in establishing manufacturing capabilities for commercial quantities of its products;

· competing technological and market developments;

- market acceptance of its stem cell products;
- costs for recruiting and retaining employees and consultants; and
- Costs for educating and training physicians about its stem cell products.

The Company may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding. The Company may seek to raise any necessary additional funds through the exercising of warrants, options, equity or debt financings, collaborative arrangements with corporate partners or other sources, which may be dilutive to existing stockholders or otherwise have a material effect on the Company's current or future business prospects. If adequate funds are not available, the Company may be required to significantly reduce or refocus its development and commercialization efforts.

The Company relies on stem cell technologies that it may not be able to commercially develop, which will prevent the Company from generating revenues, operating profitably or providing investors any return on their investment.

The Company has concentrated its research on its stem cell technologies, and the Company's ability to generate revenue and operate profitably will depend on it being able to develop these technologies for human applications. These are emerging technologies with, as yet, limited human applications. The Company cannot guarantee that it will be able to develop its stem cell technologies or that such development will result in products or services with any significant commercial utility. The Company anticipates that the commercial sale of such products or services, and royalty/licensing fees related to its technology, will be the Company's primary sources of revenues. If the Company is unable to develop its technologies, investors will likely lose their entire investment.

Inability to complete pre-clinical and clinical testing and trials will impair the viability of the Company.

The Company is in its development stage and has not yet applied for approval by the FDA to conduct clinical trials. Even if the Company successfully files an IND and receives approval from the FDA to commence trials, the outcome of pre-clinical, clinical and product testing of the Company's products is uncertain, and if the Company is unable to satisfactorily complete such testing, or if such testing yields unsatisfactory results, the Company will be unable to commercially produce its proposed products. Before obtaining regulatory approvals for the commercial sale of any potential human products, the Company's products will be subjected to extensive pre-clinical and clinical testing to demonstrate their safety and efficacy in humans. No assurances can be given that the clinical trials of the Company's products, or those of licensees or collaborators, will demonstrate the safety and efficacy of such products at all, or to the extent necessary to obtain appropriate regulatory approvals, or that the testing of such products will be completed in a timely manner, if at all, or without significant increases in costs, program delays or both, all of which could harm the Company's ability to generate revenues. In addition, the Company's proposed products may not prove to be more effective for treating disease or injury than current therapies. Accordingly, the Company may have to delay or abandon efforts to research, develop or obtain regulatory approval to market its proposed products. Many companies involved in biotechnology research and development have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. The failure to adequately demonstrate the safety and efficacy of a therapeutic product under development could delay or prevent regulatory approval of the product and could harm the Company's ability to generate revenues, operate profitably or produce any return on an investment in the Company.

The Company's additional financing requirements could result in dilution to existing stockholders.

At present, the Company is not able to finance it operations through the sales of its product. Accordingly, the Company will be required to secure additional financing. If the Company is able to obtain such additional financings such financing may be dilutive to current shareholders. The Company has the authority to issue additional shares of common stock and preferred stock, as well as additional classes or series of ownership interests or debt obligations which may be convertible into any one or more classes or series of ownership interests. The Company is authorized to issue 75,000,000 shares of common stock and 7,000,000 shares of preferred stock. Such securities may be issued without the approval or other consent of the Company's stockholders.

Risks Relating to Intellectual Property and Government Regulation

The Company may not be able to withstand challenges to its intellectual property rights, such as patents, should contests be initiated in court or at the U.S Patent and Trademark Office.

The Company relies on its intellectual property, including its issued and applied for patents, as the foundation of its business. The intellectual property rights of the Company may come under challenge, and no assurances can be given that, even though issued, the Company's current and potential future patents will survive claims commencing in the court system alleging invalidity or infringement on other patents. For example, in 2005, the Company's neural stem

cell technology was challenged in the U.S. Patent and Trademark Office by a competitor. Although the Company prevailed in this particular matter upon re-examination by the patent office, these cases are complex, lengthy and expensive, and could potentially be adjudicated adversely to the Company, removing the protection afforded by an issued patent. The viability of the Company's business would suffer if such patent protection were limited or eliminated. Moreover, the costs associated with defending or settling intellectual property claims would likely have a material adverse effect on the Company.

The Company may not be able to adequately protect against piracy of intellectual property in foreign jurisdictions.

Considerable research in the area of stem cell therapies is being performed in countries outside of the United States, and a number of the Company's competitors are located in those countries. The laws protecting intellectual property in some of those countries may not provide protection for the Company's trade secrets and intellectual property adequate to prevent its competitors from misappropriating the Company's trade secrets or intellectual property. If the Company's trade secrets or intellectual property are misappropriated in those countries, the Company may be without adequate remedies to address the issue.

The Company's products may not receive FDA approval, which would prevent the Company from commercially marketing its products and producing revenues.

The FDA and comparable government agencies in foreign countries impose substantial regulations on the manufacture and marketing of pharmaceutical products through lengthy and detailed laboratory, pre-clinical and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Satisfaction of these regulations typically takes several years or more and varies substantially based upon the type, complexity and novelty of the proposed product. The Company cannot yet accurately predict when it might first submit any Investigational New Drug, or IND, application to the FDA, or whether any such IND application would be granted on a timely basis, if at all, nor can the Company assure you that it will successfully complete any clinical trials in connection with any such IND application. Further, the Company cannot yet accurately predict when it might first submit any product license application for FDA approval or whether any such product license application would be granted on a timely basis, if at all. As a result, the Company cannot assure you that FDA approvals for any products developed by it will be granted on a timely basis, if at all. Any such delay in obtaining, or failure to obtain, such approvals could have a material adverse effect on the marketing of the Company's products and its ability to generate product revenue.

Because the Company or its collaborators must obtain regulatory approval to market its products in the United States and other countries, the Company cannot predict whether or when it will be permitted to commercialize its products.

Federal, state and local governments and agencies in the United States (including the FDA) and governments in other countries have significant regulations in place that govern many of the Company's activities. The Company is or may become subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances used in connection with its research and development work. The preclinical testing and clinical trials of the products that the Company or its collaborators develop are subject to extensive government regulation that may prevent the Company from creating commercially viable products from its discoveries. In addition, the sale by the Company or its collaborators of any commercially viable product will be subject to government regulation from several standpoints, including manufacturing, advertising and promoting, selling and marketing, labeling, and distributing. If, and to the extent that, the Company is unable to comply with these regulations, its ability to earn revenues will be materially and negatively impacted.

Risks Relating to Competition

The Company's competition includes both public and private organizations and collaborations among academic institutions and large pharmaceutical companies, most of which have significantly greater experience and financial resources than the Company does.

The biotechnology industry is characterized by intense competition. The Company competes against numerous companies, many of which have substantially greater financial and other resources than it has. Several such enterprises have initiated cell therapy research programs and/or efforts to treat the same diseases targeted by the Company. Companies such as Geron Corporation, Genzyme Corporation, StemCells, Inc., Advanced Cell Technology, Inc., Aastrom Biosciences, Inc. and Viacell, Inc., as well as others, have substantially greater resources and experience in the Company's fields than it does, and are well situated to compete with us effectively. Of course, any of the world's largest pharmaceutical companies represent a significant actual or potential competitor with vastly greater resources than the Company's.

Risks Relating to the Company's Reliance on Third Parties

The Company's outsource model depends on collaborators, non-employee consultants, research institutions, and scientific contractors to help it develop and test its proposed products. Our ability to develop such relationships

could impair or delay our ability to develop products.

The Company's strategy for the development, clinical testing and commercialization of its proposed products is based on an outsource model. This model requires that the Company enter into collaborations with corporate partners, research institutions, scientific contractors and licensors, licensees and others in order to further develop its technology and develop products. In the event the Company is not able to enter into such relationships in the future, our: ability to develop products may be seriously hindered; or we would be required to expend considerable money and research to bring such research and development functions in house. Either outcome could result in our inability to develop a commercially feasible product or in the need for substantially more working capital to complete the research in-house. Also, we are currently dependent on collaborators for a substantial portion of our research and development. Although our collaborative agreements do not impose any duties or obligations on us other than the licensing of our technology, the failure of any of these collaborations may hinder our ability to develop products in a timely fashion. By way of example, our collaboration with John Hopkins University, School of Medicine yielded findings that contributed to our patent application entitled Transplantation of Human Cells for Treatment of Neurological Disorder. Had the collaboration not have existed, our ability to apply for such patent would have been greatly hindered. We currently have 4 key collaborations. They are with:

- The University of California, San Diego;

- University of Central Florida; and
- John Hopkins University.
- University of Michigan

As we are under no financial obligation to provide additional funding under any of these collaborations, our primary risk is that no results are derived from their research.

We intend to rely upon the third-party FDA-approved manufacturers for our stem cells. Should these manufacturers fail to perform as expected, we will need to develop or procure other manufacturing sources, which would cause delays or interruptions in our product supply and result in the loss of significant sales and customers.

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. We current have an agreement with Charles River Laboratories for the manufacturing and storage of our cells. The agreement is a paid for services agreement and does not require us to purchase a minimum amount of cells. In the event Charles River Laboratories fails to provide suitable cells, we would be forced to either manufacture the cells ourselves or seek other third party vendors. Should we be forced to manufacture our stem cells, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure third party suppliers. In the event we must seek alternative third party suppliers, they may require us to purchase a minimum amount of cells, could be significantly more expensive than our current supplier, or could require other unfavorable terms. Any such event would materially impact our prospects and could delay our development. Moreover, we cannot give you any assurance that any contract manufacturers or suppliers we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications

General Risks Relating to the Company's Business

The Company may be subject to litigation that will be costly to defend or pursue and uncertain in its outcome.

The Company's business may bring it into conflict with its licensees, licensors, or others with whom it has contractual or other business relationships or with its competitors or others whose interests differ from the Company's. If the Company is unable to resolve those conflicts on terms that are satisfactory to all parties, the Company may become involved in litigation brought by or against it. That litigation is likely to be expensive and may require a significant amount of management's time and attention, at the expense of other aspects of the Company's business. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require the Company to pay damages, enjoin it from certain activities, or otherwise affect its legal or contractual rights, which could have a significant adverse effect on its business.

The Company may not be able to obtain third-party patient reimbursement or favorable product pricing, which would reduce its ability to operate profitably.

The Company's ability to successfully commercialize certain of its proposed products in the human therapeutic field may depend to a significant degree on patient reimbursement of the costs of such products and related treatments at acceptable levels from government authorities, private health insurers and other organizations, such as health maintenance organizations. The Company cannot assure you that reimbursement in the United States or foreign countries will be available for any products it may develop or, if available, will not be decreased in the future, or that reimbursement amounts will not reduce the demand for, or the price of, its products with a consequent harm to the Company's business. The Company cannot predict what additional regulation or legislation relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such regulation or

legislation may have on the Company's business. If additional regulations are overly onerous or expensive or if health care related legislation makes its business more expensive or burdensome than originally anticipated, the Company may be forced to significantly downsize its business plans or completely abandon its business model.

The Company's products may be expensive to manufacture, and they may not be profitable if the Company is unable to control the costs to manufacture them.

The Company's products may be significantly more expensive to manufacture than most other drugs currently on the market today due to a fewer number of potential manufactures, greater level of needed expertise, and other general market conditions affecting manufacturers of stem cell based products. The Company would hope to substantially reduce manufacturing costs through process improvements, development of new science, increases in manufacturing scale and outsourcing to experienced manufacturers. If the Company is not able to make these, or other improvements, and depending on the pricing of the product, its profit margins may be significantly less than that of most drugs on the market today. In addition, the Company may not be able to charge a high enough price for any cell therapy product it develops, even if they are safe and effective, to make a profit. If the Company is unable to realize significant profits from its potential product candidates, its business would be materially harmed.

In order to secure market share and generate revenues, the Company's proposed products must be accepted by the health care community, which can be very slow to adopt or unreceptive to new technologies and products.

The Company's proposed products and those developed by its collaborative partners, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide not to accept and utilize these products. The products that the Company is attempting to develop represents substantial departures from established treatment methods and will compete with a number of more conventional drugs and therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of the Company's developed products will depend on a number of factors, including:

- the Company's establishment and demonstration to the medical community of the clinical efficacy and safety of its proposed products;

- the Company's ability to create products that are superior to alternatives currently on the market;

- the Company's ability to establish in the medical community the potential advantage of its treatments over alternative treatment methods; and

- Reimbursement policies of government and third-party payors.

If the health care community does not accept the Company's products for any of the foregoing reasons, or for any other reason, the Company's business would be materially harmed.

We depend on two key employees for our continued operations and future success. A loss of either employee could significantly hinder our ability to move forward with our business plan.

The loss of either of our key executive officers, Richard Garr and Karl Johe, would be significantly detrimental to us.

- We currently *do not* maintain “key person” life insurance on the life of Mr. Garr. As a result, the Company will not receive any compensation upon the death or incapacity of this key individuals;

- We currently *do* maintain “key person” line insurance on the life of Mr. Johe. As a result, the Company will receive approximately $1,000,000 in the event of his death or incapacity.

In addition, the Company's anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, regulatory compliance, manufacturing and marketing, will require the addition of new management personnel and the development of additional expertise by existing management personnel. There is intense competition for qualified personnel in the areas of the Company's present and planned activities, and there can be no assurance that the Company will be able to continue to attract and retain the qualified personnel necessary for the development of its business. The failure to attract and retain such personnel or to develop such expertise would adversely affect the Company's business.

The Company has entered into long-term contracts with key personnel and stockholders, with significant anti-termination provisions, which could make future changes in management difficult or expensive.

Messrs. Garr and Johe have entered into seven (7) year employment agreements with the Company which expire on November 1, 2012 and which include termination provisions stating that if either employee is terminated for any reason other than a voluntary resignation, then all compensation due to such employee under the terms of the respective agreement shall become due and payable immediately. These provisions will make the replacement of either of these employees very costly to the Company, and could cause difficulty in effecting a change in control of

the Company. Termination prior to full term on the contracts would cost the Company as much as $1,800,000 per contract, and immediate vesting of all outstanding options (1,200,000 shares each).

The Company has no product liability insurance, which may leave it vulnerable to future claims that the Company will be unable to satisfy.

The testing, manufacturing, marketing and sale of human therapeutic products entails an inherent risk of product liability claims, and the Company cannot assure you that substantial product liability claims will not be asserted against it. The Company has no product liability insurance. In the event the Company is forced to expend significant funds on defending product liability actions, and in the event those funds come from operating capital, the Company will be required to reduce its business activities, which could lead to significant losses.

The Company cannot assure you that adequate insurance coverage will be available in the future on acceptable terms, if at all, or that, if available, the Company will be able to maintain any such insurance at sufficient levels of coverage or that any such insurance will provide adequate protection against potential liabilities.

The Company has limited director and officer insurance and commercial insurance policies. Any significant claim would have a material adverse effect on its business, financial condition and results of operations. Insurance availability, coverage terms and pricing continue to vary with market conditions. The Company endeavors to obtain appropriate insurance coverage for insurable risks that it identifies, however, the Company may fail to correctly anticipate or quantify insurable risks, may not be able to obtain appropriate insurance coverage, and insurers may not respond as the Company intends to cover insurable events that may occur. The Company has observed rapidly changing conditions in the insurance markets relating to nearly all areas of traditional corporate insurance. Such conditions may result in higher premium costs, higher policy deductibles, and lower coverage limits. For some risks, the Company may not have or maintain insurance coverage because of cost or availability.

Risks Relating to the Company's Common Stock

Our common shares are sporadically or "thinly" traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares

Our common shares have historically been sporadically or "thinly" traded, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven development stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly-traded public float, limited operating history and lack of revenues or profits to date could lead to wide fluctuations in our share price. The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The volatility in our common share price may subject us to securities litigation.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without a material reduction in share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of significant revenues to date, and uncertainty of future market acceptance for our products if successfully developed. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the

market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale o f shares or the availability of common shares for sale at any time will have on the prevailing market price.

The Company faces risks related to compliance with corporate governance laws and financial reporting standards.

The Sarbanes-Oxley Act of 2002, as well as related new rules and regulations implemented by the Securities and Exchange Commission and the Public Company Accounting Oversight Board, require changes in the corporate governance practices and financial reporting standards for public companies. These new laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to internal control over financial reporting ("Section 404"), will materially increase the Company's legal and financial compliance costs and made some activities more time-consuming and more burdensome. Starting in 2007, Section 404 of the Sarbanes-Oxley Act of 2002 will require that the Company's management assess the Company's internal control over financial reporting annually and include a report on its assessment in its filings with the SEC.

The Company does not intend to pay cash dividends on its common stock in the foreseeable future.

Any payment of cash dividends will depend upon the Company's financial condition, results of operations, capital requirements and other factors and will be at the discretion of the Board of Directors. The Company does not anticipate paying cash dividends on its common stock in the foreseeable future. Furthermore, the Company may incur additional indebtedness that may severely restrict or prohibit the payment of dividends.

Our issuance of additional common shares or preferred shares, or options or warrants to purchase those shares, could dilute your proportionate ownership and voting rights and negatively impact the value of your investment in our common shares as the result of preferential voting rights or veto powers, dividend rights, disproportionate rights to appoint directors to our board, conversion rights, redemption rights and liquidation provisions granted to the preferred shareholders, including the grant of rights that could discourage or prevent the distribution of dividends to you, or prevent the sale of our assets or a potential takeover of our company.

We are entitled under our certificate of incorporation to issue up to 75,000,000 common and 7,000,000 "blank check" preferred shares. As of September 30, 2007, we have issued an outstanding 30,022,744 common shares, 13,700,420 common shares reserved for issuance upon the exercise of current outstanding options and warrants, 1,054,667common shares reserved for issuances of additional grants under our 2005 incentive stock plan, and 6,150,000 shares reserved for issuance of grants under our 2007 stock plan. Accordingly, we will be entitled to issue up to 24,072,169 additional common shares and 7,000,000 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issue shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our various stock plans. We cannot give you any assurance that we will not issue additional common or preferred shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the quarterly reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Sac's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including our President and Chief Financial Officer, as

appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer, in consultation with our other members of management and advisors as appropriate, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report pursuant to Rule 15d-15(b) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them in a timely fashion to all material information required to be included in our periodic filings with the SEC.

Changes in Internal Control over Financial Reporting

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, our President and Principal Financial Officer, and effected by our board of directors, management and other personnel, 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. There were no changes in our internal control over financial reporting identified in connection with our evaluation of these controls as of the end of the period covered by this quarterly report that could have significantly affected those controls subsequent to the date of the evaluation referred to in the previous paragraph, including any corrective action with regard to significant deficiencies and material weakness.

Observations

In connection with the audit of our financial statements for the years ended December 31, 2004 and 2005, our independent auditor made several observations relating to our disclosure controls and procedures or internal controls. Specifically, our Auditor found deficiencies or weaknesses with the timely reporting of transactions and the documentation thereof. By way of example, in the past, the company has failed to document capital transactions when they occur, has failed to establish controls for document retention, and has failed to account for transactions using GAAP. Management acknowledges the existence of this problem, and believes it has put procedures in place to address them.

As part of management's attempts to strengthen our corporate governance and financial reporting, we have recently retained a chief financial officer.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

As of the date of this quarterly report, there are no material pending legal or governmental proceedings relating to our company or properties to which we are a party, and to our knowledge there are no material proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us, other than the following:

On July 28, 2006, StemCells, Inc. and StemCells California, Inc. (collectively “Stemcells”) of Palo Alto, California, filed suit against Neuralstem, Inc. in U.S. District Court in Maryland, alleging that Neuralstem has been infringing, contributing to the infringement of, and or inducing the infringement of four patents owned by or exclusively licensed to StemCells relating to stem cell culture compositions, genetically modified stem cell cultures, and methods of using such cultures.

In October 2006, Neuralstem filed a motion to dismiss, or in the alternative for summary judgment, arguing that its preclinical research activities are covered under the “safe harbor” provision of 35 U.S.C. § 271(e)(1) (the ‘“safe harbor” defense’). The parties agreed to stay substantive discovery in the case pending resolution of Neuralstem’s motion to dismiss based on the “safe harbor” defense. While limited discovery was on-going on the “safe harbor” defense, in response to submissions from Neuralstem, the Patent Office ordered reexamination of all four of the patents-in-suit owned by StemCells. The Patent Office found that there were “substantial new questions of patentability” with each claim of those patents.

In view of the reexamination proceedings, both parties agreed that a stay of the entire lawsuit was warranted. On June 25, 2007, Judge Alexander Williams, Jr. entered an order staying the entire litigation pending the outcome of the reexamination proceedings. It is not known when nor on what basis this matter will be concluded.

On September 19, 2007 the Company received notice that the United States Patent and Trademark Office (USPTO) has issued its first ruling in the reexamination of the four StemCells, Inc. patents requested by Neuralstem. The Patent Office issued an official rejection of each of the claims in all four of the patents that StemCells, Inc. attempted to assert against Neuralstem in its law suit. The Patent Office is rejecting the StemCells, Inc. patents based on additional prior art references that were not the focus of the Company’s reexamination request.

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

Information was previously reported in a Current Report filed on Form 8-K. Additionally, we incorporate by reference the information pertaining to unregistered sales of equity securities as disclosed in: (i) our registration statement filed

on form SB-2 on April 30, 2007; and (ii) our quarterly report file on Form 10-QSB for the period ended June 30, 2007.

- On September 20, 2007, our Compensation Committee granted Karl Johe, our Chairman and Chief Scientific Officer, options to purchase an aggregate of 333.333 shares of our common stock at a price per share of $3.01 pursuant to our 2005 Stock Plan. The options expire 5 years from the date when they become exercisable. Additionally, the options will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The options vest on October 31, 2010.

- On September 24, 2007, we issued 13,000 share of our common stock to Rubicon Global Holdings as partial payment for services rendered. The shares were issued in exchange for services valued at $39,000. We also granted Rubicon Global Holdings piggy back registration rights on any registration statement filed by the Company (excluding any registration statement filed on form S-8).

. On October 31, 2007, the Company issued warrants to purchase 1,227,000 shares of common stock at a per share price of $2.75 to investors who participated in the Company's March 2007 offering which was previously disclosed on the current report filed on Form 8-K with the Securities and Exchange Commission on March 16, 2007. The warrants have a term of 5 years and are substantially identical to those warrants previously issued in the March 2007 offering. The Company agreed to include the common shares underlying the warrants in the Company's next registration statement. The warrants were granted as an inducement for the investors to exercise their prior warrants as well as the waiver of certain anti-dilutive and participation rights provisions contained March 2007 stock purchase agreement and warrants. The Company hereby incorporates by reference the stock purchase agreement and form of warrant contained in the Company's current report filed on Form 8-K on March 16, 2007. The Company relied on the exception from registration provided for in section 4(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None

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

On July 31, 2007, our stockholders approved the following actions pursuant to Section 228 of the Delaware General Corporate Law ("DGCL"), which permits any action that may be taken at a meeting of the stockholders to be taken by the written consent to the action by the holders of the number of shares of voting stock required to approve the action at a meeting. The actions were approved by a vote of 15,538,895 shares of common stock. At the time of the action, there were 29,184,350 shares of our common stock issued and outstanding. Accordingly, the actions were approved by approximately 53% of the issued and outstanding shares entitled to vote.

With regard to the actions, the Company provided its stockholders of record on July 31, 2007, with written notice of the actions. The notification was sent to our shareholders on September 1, 2007, as provided for in the DGCL. At the time of the actions, the Company did not have any securities registered pursuant to the Securities Exchange Act of 1934, as amended. Accordingly, we were not required to file an Information Statement of Form 14C with the Securities and Exchange Commission.

The actions taken by written consent were:

Amendment to 2005 Stock Plan: As previously disclosed in the Company's quarterly report for the period ending June 30, 2007, the Company's board of directors approved an amendment to the Company's 2005 Stock Plan. The primary effect of the amendment was to: (i) provide for the ability of the compensation committee to make stock grants; (ii) to prohibit the issuance of stock options below the market price on the date of issuance; and (iii) to clarify the procedure with regard to the exercise of options granted under the plan. The forgoing is qualified in its entirely by the amended and restated 2005 Stock Plan filed as Exhibit 4.2(i) to the Company's quarterly report filed on Form 10-QSB for the period ended June 30, 2007. Pursuant to the July 31, 2007 written consent, our shareholders ratified the amendment.

Adoption of 2007 Stock Plan: As previously disclosed in the Company's quarterly report for the period ending June 30, 2007, the Company's board of directors adopted the 2007 Stock Plan. The 2007 Stock Plan provides for issuances of: (i) restricted stock grants; (ii) options; (iii) stock appreciation rights; and (iv) stock bonuses to our officers, directors, employees and consultants. Pursuant to the plan, all grants must be made at no less than the fair market value on the day of grant. The Company reserved 6,150,000 common shares for issuance under the plan. The forgoing is qualified in its entirely by the 2007 Stock Plan filed as Exhibit 4.2(i) to the Company's quarterly report filed on Form 10-QSB for the period ended June 30, 2007. Pursuant to the July 31, 2007 written consent, our shareholders ratified the adoption of the plan.

Election of Directors: The Company's previous board of directors was reelected in its entirety to serve until the next annual meeting of the Company's shareholders or until such director resigns or is removed. The reelected directors are:

I. Richard Garr,

Karl Johe,
Scott Ogilvie, and
William Oldaker

The Company hereby incorporates by reference the above directors biographical information as contained in the Company's registration statement filed on Form SB-2 on April 30, 2007. The action was taken pursuant to the July 31, 2007 written consent.

Waiver of Annual Meeting: Having informed the shareholders that the only actions to be taken at a physical meeting of the shareholders was: (i) approval of the Amendment of the 2005 Stock Plan; (ii) adoption of the 2007 Stock Plan; and (iii) the reelection of the current directors, and that the Company had not received any shareholder proposals to be voted upon, the shareholders voted to waive the requirement of a physical annual meeting and conduct such actions via written consent. Pursuant to the July 31, 2007 written consent, our shareholders waived the requirement of a physical meeting.

Item 5. Other Information.

Subsequent Events

On October 26, 2007, the Company agreed to reduce the exercise price of the warrants issued in connection with the Company's March 2007 offering ("March Offering"). Details of the March Offering were previously disclosed on Form 8-K on March 16, 2007. The reduction in the warrant price was negotiated by the Company's placement agent and the investors. As a result of the reduction in the exercise price, all 17 investors who participated in the March Offering chose to exercise their warrants. As a result, the Company received gross proceeds of $3,374,250 from the exercise of these warrants.

As an additional inducement to exercise the prior warrants, and as additional consideration for the waiver of certain anti-dilution and participation rights, the Company issued the prior investors an identical warrant. The issuance is further described in the section of this report entitled "*Unregistered Sale of Equity Securities and Use of Proceeds."* The warrants were issued on October 31, 2007, the closing date of the transaction.

In connection with the transaction, the Company paid T.R Winston & Company, LLC, its placement agent, fees in the amount of 8% of the gross proceeds received for its services with regard to the negotiation of the transaction terms. The Company also lowered the exercise price of the placement agent warrant received by T.R. Winston & Company, LLC in connection with the March Offering to $2.75.

Item 6. Exhibits.

The following exhibits are hereby filed as part of this Quarterly Report on Form 10-QSB or incorporated by reference.

Exhibit Number:	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned hereunto duly authorized.

NEURALSTEM, INC.

Date: November 13, 2007

/s/ I. Richard Garr

Chief Executive Officer and

/s/ John Conron

Chief Financial Officer
(Principal Accounting Officer)