Neuralstem, Inc.
Form 10-Q
August 09, 2011

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

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended June 30, 2011

Or

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

Commission File Number 000-1357459

NEURALSTEM, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code (301)-366-4841

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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. xYes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). xYes ¨ No

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a small reporting company)	Smaller reporting company ¨

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

As of August 1, 2011 there were 48,486,304 shares of common stock, $.01 par value, issued and outstanding.

Neuralstem, Inc.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Neuralstem, Inc.

Balance Sheets

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$6,141,843	$ 9,261,233
Prepaid expenses	300,745	246,887
Other current assets	6,243	322,127
Total current assets	6,448,831	9,830,247
Property and equipment, net	335,777	200,084
Intangible assets, net	566,823	500,154
Other assets	68,653	60,875
Total assets	$7,420,084	$ 10,591,360
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$773,008	$ 1,032,931
Accrued bonus expense	381,322	453,240
Fair value of warrant obligations	-	1,250,839
Total current liabilities	1,154,330	2,737,010
Total liabilities	1,154,330	2,737,010
STOCKHOLDERS' EQUITY		
Preferred stock, 7,000,000 shares authorized, zero shares issued and outstanding	-	-
Common stock, $0.01 par value; 150 million shares authorized, 48,486,304 and 46,897,529 shares outstanding in 2011 and 2010 respectively	484,863	468,975
Additional paid-in capital	98,485,549	93,339,506
Accumulated deficit	(92,704,658)	(85,954,131)
Total stockholders' equity	6,265,754	7,854,350
Total liabilities and stockholders' equity	$7,420,084	$ 10,591,360

See accompanying notes.

Neuralstem, Inc.

Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	$-	$-	$-	$-
Operating expenses:				
Research and development costs	2,085,671	2,613,676	3,824,399	4,513,640
General and administrative expenses	1,523,226	1,550,814	3,295,708	3,238,649
Depreciation and amortization	59,971	30,601	85,264	59,663
Total operating expenses	3,668,868	4,195,091	7,205,371	7,811,952
Operating loss	(3,668,868)	(4,195,091)	(7,205,371)	(7,811,952)
Nonoperating income (expense):				
Litigation settlement	-	-	250,000	-
Interest income	20,143	9,653	43,035	15,463
Interest expense	-	(1,462)	-	(2,120)
Warrant issuance and modification expense	-	-	-	(1,906,800)
Gain (loss) from change in fair value adjustment of warrant obligations	-	(764,440)	161,809	(2,012,892)
Total nonoperating income (expense)	20,143	(756,249)	454,844	(3,906,349)
Net loss attributable to common shareholders	$(3,648,725)	$(4,951,340)	$(6,750,527)	$(11,718,301)
Net loss per share - basic and diluted	$(0.08)	$(0.12)	$(0.14)	$(0.29)
Weighted average common shares outstanding - basic and diluted	48,486,304	42,450,338	48,091,019	40,505,586

See accompanying notes

Neuralstem, Inc.

Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	$(6,750,527)	$(11,718,301)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	85,264	59,663
Share based compensation expenses	2,207,074	2,630,742
Warrant issuance and modification expense	-	1,906,800
(Gain)/loss from change in fair value adjustment of warrant obligations	(161,809)	2,012,893
Changes in operating assets and liabilities:		
Prepaid expenses	66,141	50,988
Other current assets	315,884	-
Other assets	(7,778)	6,307
Accounts payable and accrued expenses	(182,423)	353,055
Accrued bonus expense	(71,918)	(180,877)
Net cash used in operating activities	(4,500,092)	(4,878,730)
Cash flows from investing activities:		
Investment in intangible assets	(105,665)	(92,493)
Purchase of property and equipment	(181,960)	(26,391)
Net cash used in investing activities	(287,625)	(118,884)
Cash flows From financing activities:		
Proceeds from issuance of common stock from warrants exercised	1,668,327	7,442,066
Issuance of common stock from private placement	-	9,271,519
Net cash provided by financing activities	1,668,327	16,713,585
Net (decrease)increase in cash and cash equivalents	(3,119,389)	11,715,971
Cash and cash equivalents, beginning of period	9,261,233	2,309,774
Cash and cash equivalents, end of period	$6,141,843	$14,025,745
Supplemental disclosure of cash flows information:		
Cash paid for interest	$-	$1,462
Cash paid for income taxes	-	-
Supplemental schedule of non cash investing and financing activities:		

Extinguishment of warrant obligations through exercise, expiration and modification of common stock warrants	1,089,030	6,285,613
Issuance of common stock for executive bonuses	77,500	-
Payment of services through common stock issuance	240,000	240,000

See accompanying notes.

Neuralstem, Inc.
Statement of Changes in Stockholders' Equity
For the period from January 1, 2011 through June 30, 2011
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at January 1, 2011	46,897,529	$ 468,975	$ 93,339,506	$ (85,954,131)	$ 7,854,350
Share based payments			2,087,074		2,087,074
Issuance of common stock from warrants exercised at $1.10 and $1.25 per share, net of issuance costs of $158,020.	1,468,775	14,688	1,653,639		1,668,327
Issuance of restricted common stock and restricted common stock units in payment for 2010 executive bonuses ($2.02 per share)			77,500		77,500
Warrant issuances and modifications			1,089,030		1,089,030
Issuance of common stock for prepaid consulting services	120,000	1,200	238,800		240,000
Net loss				(6,750,527)	(6,750,527)
Balance at June 30, 2011	48,486,304	$ 484,863	$ 98,485,549	$ (92,704,658)	$ 6,265,754

See accompanying notes.

NEURALSTEM, INC.
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

The Company is also in the process of establishing laboratory facilities in China in a wholly owned, recently established, subsidiary. At June 30, 2011, our investment in the Chinese operations was immaterial, so we did not present consolidated financial statements.

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.

The Company's business generates cash on occasion from government grants and licensing agreements. These transactions are opportunistic and small relative to Company’s total funding requirement. They should be viewed as non-recurring. 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/pre-clinical testing of the Company's stem cell technologies and products with the goal of ultimately obtaining approval from the United States Food and Drug Administration ("FDA") to market and sell our products. We believe our long-term cash position is inadequate to fund all of the costs associated with the full range of testing and clinical trials required by the FDA for our core products. Based on our current operating levels, we believe that we have sufficient levels of cash and cash equivalents to fund operations to the end of 2011.

No assurance can be given that (i) we will be able to expand our operations prior to FDA approval of our products, or (ii) that FDA approval will ever be granted for our products.

Revenue Recognition

Our revenue recognition policies are in accordance with guidance issued by the SEC and Financial Accounting Standards Board (FASB). Historically, our revenue has been 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. More recently, we have recognized revenue from federal grants through the Patient Protection and Affordable Care Act. 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 expenses consist primarily of costs associated exclusively in the development of treatments for central nervous system diseases, and the Company is in clinical trials for both pharmaceutical and stem cell based treatments. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes as well as the cost of our stem cell and pharmaceutical clinical trials. Research and development costs are expensed as they are incurred.

Loss per Common Share

Basic and diluted loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period.

	For The Six Months Ended June 30,	
	2011	2010
Basic and Diluted:		
Net loss attributable to common shareholders	$(6,750,527)	$(11,718,301)
Weighted average common shares outstanding	48,091,019	40,505,586
Basic and diluted loss per common share	$(0.14)	$(0.29)

Share Based Payments

We have granted stock-based compensation awards to employees, board members and service providers. Awards may consist of common stock, restricted common stock, restricted common stock units, warrants, or stock options. Our stock options and warrants have lives of up to ten years. 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. The restricted stock units grant the right to fully paid common shares with various restrictions on the holder's ability to transfer the shares. Vesting of the restricted stock units is the same as the options.

We granted 10,000 stock options during the six months ended June 30, 2011. We granted 145,000 stock options for the six months ended June 30, 2010. We recorded related compensation expenses as our stock options vest in accordance with guidance issued by the FASB related to share based payments. We recognized $2,207,074 and $2,630,742 in share based compensation expense during the six months ended June 30, 2011 and 2010,

respectively. Included in the expense for the six months ended June 30, 2011, is $60,000 in expense related to the amortization of prepaid consulting expense paid with the issuance of $240,000 in common stock as of April 1, 2010 and $60,000 in expense related to the amortization of prepaid consulting expense paid with the issuance of $240,000 in common stock as of April 1, 2011.

A summary of stock option activity during the six months ended June 30, 2011 and related information is included in the table below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	9,825,621	$2.48	6.4	$-
Granted	10,000	2.02	6.6	$-
Exercised	-	-	-	-
Forfeited	(3,300)	16.67	-	-
Outstanding at June 30, 2011	9,832,321	$2.48	5.9	$2,481,700
Exercisable at June 30, 2011	7,844,818	$2.29	5.9	$2,481,700

Share-based compensation expense included in the statements of operations for the three and six months ended June 30, 2011 and 2010 was as follows:

	Three Months Ended June 30, 2011	2010
Research and development costs	$553,380	$703,299
General and administrative expenses	505,035	626,559
Total	$1,058,415	$1,329,858

	Six Months Ended June 30, 2011	2010
Research and development costs	$1,106,760	$1,539,495
General and administrative expenses	1,100,314	1,091,247
Total	$2,207,074	$2,630,742

We have granted restricted stock units (RSUs) to certain employees that entitle the holders to receive shares of our common stock upon vesting of the RSUs, and subject to restrictions regarding the exercise of the RSUs. The fair value of restricted stock units granted are based upon the market price of the underlying common stock as if it were vested and issued on the date of grant.

A summary of our restricted stock unit activity for the six months ended June 30, 2011 is as follows:

	Number of RSUs	Weighted-average grant date fair value
Balance at January 1, 2011	296,369	$ 2.21
Granted	44,802	2.02
Vested and converted to common shares	-	-
Cancelled	-	-
Balance at June 30, 2011	341,171	$ 2.18

Warrants to purchase common stock were issued to certain officers, directors, stockholders and service providers.

	Number of Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	15,456,694	2.47	3.4	-
Granted	596,675	2.14	9.8	-
Exercised	(1,468,775)	1.24	-	$1,147,121
Forfeited	(432,239)	1.81	-	-
Outstanding at June 30, 2011	14,152,355	$2.60	3.7	$526,620
Exercisable at June 30, 2011	12,152,355	$2.37	3.4	$526,620

The Company used the following assumptions for determining the fair value of options and warrants granted under the Black-Scholes option pricing model:

	June 30, 2011	June 30, 2010
Annual dividend yield	-	-
Expected life (years)	2 - 6.5	2 - 6.5
Risk free interest rate	0.01 - 4.76	0.74 - 4.96%
Expected volatility	72.6% - 75.4%	46% - 87%

Effective January 1, 2009 we adopted the provisions of recent accounting guidance, described below. As a result of adopting this guidance, 8,547,762 of our issued and outstanding common stock purchase warrants previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment. These warrants have the following characteristics:

Strike Price	Date of Issue	Date of Expiration	Warrants Outstanding

Series A & B Warrants	$	1.25	February-06	February-11	4,359,605
Series A & B Warrants, Placement Agent	$	1.10	February-06	February-11	782,005
Series C Warrants	$	1.25	October-07	October-12	1,227,000
Series C Warrants, Placement Agent	$	1.25	March-07	March-12	294,480
Series C Warrants, anti-dilution awards	$	1.25	December-08	October-12	1,472,400
Series C Warrants, Placement Agent, anti-dilution awards	$	1.25	December-08	March-12	412,272
Total warrants no longer accounted for as equity at January 1, 2009					8,547,762

Effective January 1, 2009 we reclassified the fair value of the common stock purchase warrants, which were outstanding at January 1, 2009, and which have exercise price reset and anti-liquidation features, from equity to liability status as if these warrants were treated as a derivative liability since their date of issue. On January 1, 2009, we reduced additional paid-in capital by $6.9 million and decreased the beginning retained deficit by $.3 million as a cumulative effect to establish a long-term warrant liability of $6.6 million to recognize the fair value of such warrants. On February 23, 2011, all remaining common stock purchase warrants which have exercise price reset and anti-liquidation features expired, effectively eliminating the derivative liability. In the three months ended March 31, 2011, warrant holders exercised 1,404,625 of these warrants and 32,239 expired. This resulted in a net gain in the change in fair value of warrants of $161,809 for the period ended March 31, 2011. There were no further transactions associated with these warrants subsequent to March 31, 2011.

These common stock purchase warrants were initially issued in connection with placement of the Company's common stock. The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants did not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants were recognized currently in earnings until such time as the warrants are exercised or expire. These common stock purchase warrants do not trade in an active securities market, and as such, we estimated the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions:

	June 30, 2011	June 30, 2010	
Annual dividend yield	N/A	-	
Expected life (months)	N/A	0.33	
Risk free interest rate	N/A	0.18	%
Expected volatility	N/A	61	%

Expected volatility was based primarily on historical volatility. Historical volatility was computed using daily pricing observations for a group of similar companies for recent periods that correspond to the expected life of the warrants. We believe this method produced an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life was estimated by management based on the remaining term of the warrants. The risk-free interest rate was based on the rate for U.S. Treasury securities over the expected life.

Significant New Accounting Pronouncements

In March 2010, the FASB issued revised accounting guidance for milestone revenue recognition. The new guidance allows for revenue recognition contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. It is effective on a prospective basis to milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Company has adopted this guidance beginning with agreements entered into on or after January 1, 2011. The adoption of this standard did not have a material impact on its financial position and results of operations.

Note 3. Fair Value

Fair value is defined as the price at which an asset could be exchanged or a liability transferred (an exit price) in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset

or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied.

Financial assets recorded at fair value in the accompanying financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, as defined by the new guidance related to fair value measurements and disclosures, and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair valued assets we hold that are generally included in this category are money market securities where fair value is based on publicly quoted prices and included in cash equivalents.

Level 2 — Inputs are other than quoted prices included in Level 1, which are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument's anticipated life.

We carry no investments classified as Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Our warrant obligations which expired in February 2011 were considered Level 3 items.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair value measurements at June 30, 2011 using		
	June 30, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 6,141,843	$ 6,141,843	$ -	$ -

		Fair value measurements at June 30, 2010 using		
	June 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 14,025,745	$ 14,025,745	$ -	$ -
Liabilities:				
Fair value of warrant obligations	$ 2,189,064	$ -	$ -	$ 2,189,064

	Three months ended June 30, 2011	Three months ended June 30, 2010
Fair value of warrant obligations at beginning of period	$ -	$ 1,497,863
Extinguishment through warrant exercises and modifications	-	(73,239)
Extinguishment through warrant expirations	-	-
Net (gain) loss for change in fair value included in the statement of operations for period	-	764,440
Fair value of warrant obligations at end of period	$ -	$ 2,189,064

	Six months ended June 30, 2011	Six months ended June 30, 2010
Fair value of warrant obligations at beginning of period	$ 1,250,839	$ 6,462,039
Extinguishment through warrant exercises and modifications	(1,089,030)	(6,285,613)
Extinguishment through warrant expirations	-	(254)
Net (gain) loss for change in fair value included in the statement of operations for period	(161,809)	2,012,892
Fair value of warrant obligations at end of period	$ -	$ 2,189,064

Note 4. Stockholders' Equity

During the six months ended June 30, 2011, various warrant holders exercised 1,468,775 warrants at $1.10 and $1.25 per warrant increasing equity by approximately $1.67 million, net of $158,020 in related financing costs. There were no warrants exercised during the three months ended June 30, 2011.

Note 5. Subsequent Events

In August 2011, the Company announced it received a U.S. Department of Defense (DOD) contract to develop its human neural stem cell technology for the treatment of cancerous brain tumors. The research contract, entitled "Research to Treat Cancerous Brain Tumors with Neural Stem Cells," will be carried out in collaboration with Principal Investigator John Zhang, MD, PhD, Professor of Neurosurgery, Loma Linda University, in Loma Linda, CA. The contract award is $1.6 million for the first year of the project, of which Neuralstem will receive $625,000. The DOD has three one-year options to continue the program after the first year based upon milestones. The goal of the program is to have a therapeutic product for the treatment of cancerous brain tumors ready to submit to the FDA by the end of the fourth year (2015).

In July the Company announced that it has received a patent covering the transplantation of human neural cells for the treatment of neurodegenerative conditions from the Russian Federation. The claims include methods of culturing the cells as well as treating amyotrophic lateral sclerosis (ALS or Lou Gehrig's disease), spinal cord injuries, traumatic brain injury, multiple sclerosis, cerebral palsy, epilepsy, Huntington's disease and other conditions through cell transplantation.

In July the Company also announced that it has received notice of allowance for U.S. Patent Applications 12/939,897 and 12/939,914 entitled: "Compositions to Effect Neuronal Growth." The patents cover three new compounds and include both structure and method claims for inducing neurogenesis and the growth of new neurons, both in-vitro and in-vivo.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ADVISEMENT

We urge you to read this entire Quarterly Report on Form 10-Q, including the" Risk Factors" section, the financial statements, and related notes. As used in this Quarterly Report, unless the context otherwise requires, the words "we," "us,""our," "the Company," "Neuralstem" and "Registrant" refers to Neuralstem, Inc. Also, any reference to "common shares," "common stock," refers to our $.01 par value common stock. The information contained herein is current as of the date of this Quarterly Report (June 30, 2011), unless another date is specified.

We prepare our interim financial statements in accordance with United States generally accepted accounting principles. Our financials and results of operations for the three and six month period ended June 30, 2011 are not necessarily indicative of our prospective financial condition and results of operations for the pending full fiscal year ending December 31, 2011. 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 the reports, statements and information filed by us with the United States Securities and Exchange Commission ("SEC").

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," a similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A, "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the U.S. Securities and Exchange Commission ("SEC") and the Financial Statements and notes thereto included elsewhere in this Form 10-Q. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Available Information

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act") are filed with the SEC. Such reports and other information filed by the Company with the SEC are available on the Company's website at http://www.neuralstem.com when such reports are available on the SEC website. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public

Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy, and information statements and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying financial statements and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Overview — Discussion of our business and overall analysis of financial and other highlights affecting the Company in order to provide context for the remainder of MD&A.

- Trends & Outlook — Discussion of what we view as the overall trends affecting our business and the strategy for 2011.

- Critical Accounting Policies— Accounting policies that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

- Results of Operations— Analysis of our financial results comparing the three and six months ended June 30, 2011 to the comparable periods of 2010.

- Liquidity and Capital Resources— An analysis of changes in our balance sheet and cash flows and discussion of our financial condition and future liquidity needs.

The various sections of this MD&A contain a number of forward-looking statements. Words such as "expects," "goals," "plans," "believes," "continues," "may," and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the "Overview" and "Trends & Outlook" section (see also "Risk Factors" in Part II, Item 1A of this Quarterly Report). Our actual results may differ materially.

Executive Overview

We are focused on the development and commercialization of treatments based on transplanting human neural stem cells and small molecule compounds.

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 sixteen (16) issued patents and twenty-nine (29) patent pending applications in the field of regenerative medicine, related technologies as well as our small molecule compounds. We believe our technology base, in combination with our know-how, and collaborative projects with major research institutions, provide a competitive advantage and will facilitate the development and commercialization of products for use in the treatment of a wide array of neurodegenerative conditions and in regenerative repair of acute disease.

Regenerative medicine is a young and emerging field. Regenerative medicine is the process of creating living, functional tissues to repair or replace tissue or organ function lost due to age, disease, damage, or congenital defects. 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 products may not be able to successfully compete against them.

All of our research efforts to date are at the pre-clinical or clinical stage of development. We are focused on leveraging our key assets, including our intellectual property, our scientific team and our facilities, to advance our technologies. In addition, we are pursuing strategic collaborations with members of academia.

Clinical Trials

Stem Cells

On December 18, 2008 we filed our first Investigational New Drug Application ("IND") with the U.S. Food and Drug Administration ("FDA") to begin a clinical trial to treat Amyotrophic Lateral Sclerosis ("ALS" or "Lou Gehrig's disease"). The first patient in our study was dosed on January 21, 2010 at Emory University in Atlanta Georgia. The trial will ultimately consist of up to 18 ALS patients, who will be examined at regular intervals post-surgery, with final review of the data to come six months after the last patient is treated. To date, we have treated 12 patients. With the completion of the first three patient groups (totaling 12 patients) we have reached the planned pause in the trial while the FDA reviews the results to date. We expect to receive approval to continue the trial and begin transplanting the next cohort this summer.

On August 22, 2010, we filed our second IND which was our proposed Phase I clinical trials for chronic spinal cord injury. In October of 2010, we were notified that our IND for spinal cord injury had been placed on clinical hold. At the time, the FDA provided us with specific comments, questions and recommendations for modifications to our trial protocol as contained in our IND application. We expect to revisit this IND with the FDA with a review of the long term human safety data from our ALS trial as well as some additional long term animal safety data that was created for the next phase of the ALS trial.

Pharmaceutical Compounds

The Company has begun Clinical trials to evaluate the safety of its drug, NSI-189, which is being developed for the treatment of major depressive disorder and other psychiatric indications. NSI-189 is the lead compound in Neuralstem's neurogenerative small molecule drug platform. In February of 2011, we dosed our first patient and commenced our Phase IA clinical trial. This Phase IA trial will test a single oral administration of NSI-189 in healthy volunteers and seeks to determine the maximum tolerated single dose. The trial has two phases, IA and IB. The IB is also a safety study involving actual depression patients. It is still too early in the trials to make any determination as to its level of success, if any. The phase 1A trial should be completed in August 2011; and we also expect approval to begin the 1B and the commencement of the 1B trial in the 3rd quarter of 2011.

Technology

Stem Cells

Our technology enables the isolation and large-scale expansion of human neural stem cells from all areas of the developing human brain and spinal cord, thus enabling the generation of physiologically relevant human neurons of all types. Our two issued core patents entitled: (i) Isolation, Propagation, and Directed Differentiation of Stem Cells from Embryonic and Adult Central Nervous System of Mammals; and (ii) In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multipotential CNS Stem Cell contain claims which cover the process of deriving the cells as well as the cells created from this process.

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

To date we have focused our efforts on applications involving spinal cord stem cells. We believe we have established “proof of principle” for two important spinal cord applications: ALS, or Lou Gehrig’s disease, and Ischemic Spastic Paraplegia (a painful form of spasticity that may arise as a complication of surgery to repair aortic aneurysms). Of these applications, we have commenced Phase I trials with regard to ALS.

We intend to treat both chronic and acute spinal cord injury with the same spinal cord stem cells, utilizing the same injection devices we are using for ALS. We, therefore, add to our knowledge about the surgical route of entry for both the ALS patients and the spinal cord injury patients with each patient we treat in the ALS trial.

The Company received a U.S. Department of Defense (DOD) contract to develop its human neural stem cell technology for the treatment of cancerous brain tumors. The contract award is $1.6 million for the first year of the project, of which Neuralstem will receive $625,000. The DOD has three one-year options to continue the program after the first year based upon milestones. The goal of the program is to have a therapeutic product for the treatment of cancerous brain tumors ready to submit to the FDA by the end of the fourth year (2015).

Current cancer therapies do not work on the majority of brain tumors. The Company will be engineering our cells to attack brain cancer in three ways: first, by expressing an antibody known to suppress tumor growth; second, by expressing an enzyme that selectively kills tumor cells; and third by expressing an antiangiogenic protein that will starve the tumors by preventing the formation of the blood vessels that feed them.

The Company believes that transplantation of its cells into the brain provides a unique route of administration through which to deliver these three anti-tumor therapies. Neural stem cells are known to migrate to tumors and thus should be particularly well suited to the task. Additionally, because we are transplanting the cells directly into the brain, these drugs can be delivered directly into the brain without exposing a patient's peripheral organs to the powerful doses needed to kill the cancer cells.

Pharmaceutical Compounds

The Company has developed and patented a series of small molecule compounds (low molecular weight organic compounds which can efficiently cross the blood/brain barrier). We believe that these small molecule compounds will stimulate the growth of new neurons in the hippocampus and provide a treatment for depression, and possibly other cognitive impact diseases. In July of 2009, the U.S. Patent and Trademark Office issued the patent covered by patent application 12/049,922, entitled "Use of Fused Nicotinamides to Promote Neurogenesis," which claims four chemical entities and any pharmaceutical composition included in them.

NS-189 is the first in a class of compounds that Neuralstem plans to develop into orally administered drugs for Major depressive disorder ("MDD") and other psychiatric disorders.

In mice, NSI-189 both stimulated neurogenesis of the hippocampus and increased its volume. Additionally, NSI-189 stimulated neurogenesis of human hippocampus-derived neural stem cells in vitro. We believe NSI-189 may reverse the human hippocampal atrophy seen in major depression and other disorders.

The Neuralstem small molecule platform results from discoveries made through Neuralstem's ability to generate stable human neural stem cell lines suitable for screening large chemical libraries. The platform complements our cell therapy platform, in which brain and spinal cord stem cells are transplanted directly into diseased areas to repair and/or replace diseased or dead cells.

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 our 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 internally, through the use of third party laboratories and consulting companies under our direct supervision, and through collaboration with academic institutes.

Operating Strategy

We employ an outsourcing strategy where we outsource all of our Good Laboratory Practices ("GLP") preclinical development activities and Good Manufacturing Practices ("GMP") manufacturing and clinical development activities to contract research organizations ("CRO") and contract manufacturing organizations ("CMO") as well as all non-critical corporate functions. Manufacturing is also outsourced to organizations with approved facilities and manufacturing practices. This outsource model allows us to better manage cash on hand and eliminates non-vital expenditures. It also allows for us to operate with relatively fewer employees and lower fixed costs than that required by our competitors.

Employees

As of June 30, 2011, we had 12 full-time employees and 4 full time independent contractors. Of these employees, 6 work on research and development and 6 in administration. We also use the services of numerous outside consultants in business and scientific matters.

Our Corporate Information

We were incorporated in Delaware. Our principal executive offices are located at 9700 Great Seneca Highway, Rockville, Maryland 20850, and our telephone number is (301) 366-4841. Our website is located at

www.neuralstem.com. We have not incorporated by reference into this prospectus the information in, or that can be accessed through, our website, and you should not consider it to be a part of this prospectus.

Trends & Outlook

Revenue

We generated no revenues from the sale of our products for the year ended December 31, 2010 or for the three and six months ended June 30, 2011. On February 2, 2011, we received $250,000 from a settlement with ReNeuron, Ltd., ending litigation between the parties. In addition to the settlement, ReNeuron agreed to make future milestone payments to Neuralstem based on ReNeuron's development of certain products which were at issue in the case. We are mainly focused on: (i) successfully managing our two (2) sponsored clinical trials, and (ii) preparing for the initiation of clinical trials relating to Chronic Spinal Cord injury. We are also pursuing pre-clinical studies on other central nervous system indications in preparation for additional clinical trials. We are not focused at this time on generating revenues.

Long-term, we anticipate our revenue will be derived primarily from licensing fees and sales of our cell based therapy and small molecule compounds. Because we are at such an early stage in the clinical trials process, we are not yet able to accurately predict when we will have a product ready for commercialization, if ever.

Research & Development Expenses

Our research and development costs consist of expenses incurred in identifying, developing and testing treatments for central nervous system diseases. These expenses consist primarily of salaries and related expenses for personnel, fees paid to professional service providers and academic collaborators for research, testing, contract manufacturing, costs of facilities, and the preparation of regulatory applications and reports.

We focus on the development of treatment candidates with potential uses in multiple indications, and use employee and infrastructure resources across several projects. Accordingly, many of our costs are not attributable to a specifically identified product and we do not account for internal research and development costs on a project-by-project basis.

We expect that research and development expenses will increase in the future, as funding allows. To the extent that it is practical, we will continue to outsource much of our efforts, including product manufacture, proof of principle and preclinical testing, toxicology, tumorigenicity, dosing rationale, and development of clinical protocol and IND applications. This approach allows us to use the best expertise available for each task and permits staging new research projects to fit available cash resources.

We have formed a wholly owned subsidiary in the People’s Republic of China. This subsidiary will primarily conduct research with regard to stem cells. Our investment to date is considered immaterial.

Clinical Trials

Stem Cells

Our top development priority is our ongoing clinical trial for ALS at Emory University in Atlanta. We estimate that the Phase I trial for ALS will require 18 patients at an estimated cost of $130,000 per patient. The per patient cost includes the costs of the operation to administer our spinal cord cells, post operation treatment for the patient, Emory University’s charges for running the trial and third party trial monitoring and data collection. Spending on an individual patient will be expensed as incurred. We expect trial spending to gradually decrease to $100,000 per month after a number of patients have been treated. To date, we have treated 12 patients. It is still too early in the trials to make any determination as to its level of success.

On August 22, 2010, we filed our second IND with the FDA. The IND is being filed in connection with our proposed Phase I clinical trials for Chronic Spinal Cord injury. As of the date of this report, the FDA has not approved our IND. We expect to revisit this IND with the FDA with a review of the long term human safety data from our ALS trial as well as some additional long term animal safety data that was created for the next phase of the ALS trial.

Small Molecule Compounds

In December of 2010, the FDA approved our IND application to initiate a Phase IA safety trial to test NSI-189, our first small molecule compound, for the treatment of major depression. In February of 2011, we dosed our first patient and commenced our Phase IA clinical trial of our lead small molecule compound to treat major depression. It is still too early in the trials to make any determination as to its level of success.

General and Administrative Expenses

Our general and administrative ("G&A") 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 a pre-clinical to clinical phase of development. Additionally, we have now transitioned to accelerated filer status with the SEC and will no longer be able to use the scaled disclosure afforded to smaller reporting companies. As a result, we will incur additional costs and expenses with regard to our legal and financial compliance, including compliance with Section 404(b) of the Sarbanes-Oxley Act of 2002.

We anticipate that as a result of our outsource model, our G&A expenses related to our core business will increase at a slower rate than that of similar companies.

Critical 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 Financial Statements describes the significant accounting policies used in the preparation of the 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 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 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 financial statements:

Use of Estimates—Our 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— In November 2010, we were awarded three federal grants, totaling $733,438 through the Patient Protection and Affordable Care Act. We had no revenues from the sale of our products for the years ended December

31, 2010 or 2009, or for the three and six month periods ended June 30, 2011 or 2010. On February 2, 2011, we received $250,000 from a settlement with ReNeuron, Ltd., ending litigation between the parties. In addition to the settlement, ReNeuron agreed to make future milestone payments to Neuralstem based on ReNeuron's development of certain products which were at issue in the case. Our revenues, to date, have 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 and will be affected by particular transactions we may enter into in the future. To date, we have only had revenue from government grants and licensing agreements.

Intangible and Long-Lived Assets—We follow FASB guidelines related to the accounting for impairment 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 three and six month periods ended June 30, 2011 and 2010, no impairment losses were recognized.

Accounting for Warrants - We have adopted FASB guidance related to determining whether an instrument or embedded feature is indexed to an entity's own stock. This guidance applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by the FASB, and to any freestanding financial instruments that are potentially settled in an entity's own common stock. As a result, certain of our warrants are considered to be derivatives and must be valued using various assumptions as they are recorded as liabilities.

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.

Income Taxes - Income taxes are provided for using the liability method of accounting in accordance with accepted accounting standards. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Stock Based Compensation - The Company accounts for equity instruments issued to non-employees in accordance with guidance issued by FASB. Accordingly, the estimated fair value of the equity instrument is recorded on the earlier of the performance commitment date or the date the services required are completed.

We adopted the guidance issued by the FASB related to share based payments. This guidance requires compensation costs related to share-based payment transactions to be recognized in the financial statements.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 2011 and 2010

Revenue

We did not generate any revenues from the sale of our products in 2010 or the three months ended June 30, 2011.

Operating Expenses

Operating expenses totaled $3,668,868 and $4,195,091 for the three months ended June 30, 2011 and 2010, respectively.

	Three Months Ended June 30,		Change in 2011 Versus 2010	
	2011	2010	$	%
Operating Expenses				
Research & development	$ 2,085,671	$ 2,613,676	$528,005	20 %
General & administrative expense	1,523,226	1,550,814	27,588	2 %
Depreciation and amortization	59,971	30,601	(29,370)	(96)%
Total expense	$ 3,668,868	$ 4,195,091	$526,223	13 %

Research and Development Expenses

Our R&D expenses consist primarily of contractors charges and personnel expenses associated with clinical trials and regulatory submissions; costs associated with preclinical activities such as proof of principle for new indications; toxicology studies; costs associated with cell processing and process development; facilities-related costs and supplies. Clinical trial expenses include payments to research organizations, contract manufacturers, clinical trial sites, laboratories for testing clinical samples and consultants.

Research and development expenses totaled $2,085,671 and $2,613,676 for the three months ended June 30, 2011 and 2010, respectively. The decrease of $528,005 or 20.2%, for the three months ended June 30, 2011 compared to the same period in 2010 was primarily attributable to $494,262 of decreased project spending the in the second quarter of 2011 as the second quarter of 2010 had three ALS surgeries and a number of trial start-up costs and the second quarter of 2011 had no ALS surgeries as the Company waited for FDA approvals to resume the ALS trial. The second quarter of 2011 saw a $140,919 reduction in stock based compensation expense in the first quarter of 2011 offset by higher personnel costs due to headcount increases.

General and Administrative Expenses

General and administrative (G&A) expenses are primarily comprised of legal fees, salaries, benefits and other costs associated with, finance, legal, human resources, information technology, public relations, facilities and other external general and administrative services.

G&A expenses totaled $1,523,226 and $1,550,814 for the three months ended June 30, 2011 and 2010, respectively. The decrease of $27,588 or 1.8% for the three months ended June 30, 2011 compared to the same period in 2010 was primarily attributable to an overall $105,321 increase in cash expenses principally related to higher headcount, offset by a $126,666 decrease in stock based compensation expense.

Depreciation and Amortization

Depreciation and amortization expenses totaled $59,971 and $30,601 for the three months ended June 30, 2011 and 2010, respectively. The increase of $29,370 or 96.0% for the three months ended June 30, 2011 compared to the same period in 2010 was primarily attributable to the purchase of property and equipment and the acquisition of intangible assets.

Nonoperating income (expense)

Nonoperating income (expense) totaled $20,143 and ($756,249) for the three months ended June 30, 2011 and 2010, respectively. The nonoperating income or expense is discussed below.

	Three Months Ended June 30,	
	2011	2010
Nonoperating income (expense):		
Interest income	$ 20,143	$ 9,653
Interest expense	-	(1,462)
Gain (loss) on change in fair value adjustment of warrant obligations	-	(764,440)
Total nonoperating income (expense)	$ 20,143	$ (756,249)

Interest Income/(Expense)

Interest income totaled $20,143 and $9,653 for the three months ended June 30, 2011 and 2010, respectively. The increase of $10,490 for the three months ended June 30, 2011 compared to the comparable period in 2010 was attributable to higher interest rates.

There was no interest expense for the three months ended June 30, 2011, compared with $1,462 for the three months ended June 30, 2010. The decrease of $1,462 for the three months ended June 30, 2011 compared to the comparable period in 2010 was attributable to a payoff of loans related to insurance costs in 2010.

Warrant Expenses

The Company had a warrant modification expense that totaled $0 and $764,440 for the three months ended June 30, 2011 and 2010, respectively. Details of the transaction are in Note 2 to the financial statements.

On January 1, 2009 we reclassified the fair value of common stock purchase warrants, which have exercise price reset and anti-liquidation features, from equity to liability status, as if these warrants were treated as a derivative liability since their date of issue. We established a warrant liability of $6.6 million to recognize the fair value of such warrants. As of March 31, 2011, the fair value of these common stock purchase warrants had decreased to $0 as a result of the warrants expiring or being exercised for cash.

Comparison of Six Months Ended June 30, 2011 and 2010

Revenue

We did not generate any revenues from the sale of our products in 2010 or the six months ended June 30, 2011. In November 2010, we were awarded three federal grants, totaling $733,438 through the Patient Protection and Affordable Care Act, which supports investments in qualifying therapeutic discovery projects. During 2010, we had received $575,406 of the grant. During the three months ended March 31, 2011, we received the balance of $158,032 which was recorded as a receivable at December 31, 2010. These are one-time grants. On February 2, 2011, we received $250,000 from a settlement with ReNeuron, Ltd. ending litigation between the parties. In addition to the settlement, ReNeuron agreed to make future milestone payments to Neuralstem based on ReNeuron's development of certain products which were at issue in the case. The success of ReNeuron’s development of these products is uncertain.

Operating Expenses

Operating expenses totaled $7,205,371 and $7,811,952 for the six months ended June 30, 2011 and 2010, respectively.

	Six Months Ended June 30,		Change in 2011 Versus 2010	
	2011	2010	$	%
Operating Expenses				
Research & development	$ 3,824,399	$ 4,513,640	$ 689,241	15 %
General & administrative expense	3,295,708	3,238,649	(57,059)	(2)%
Depreciation and amortization	85,264	59,663	(25,601)	(43)%
Total expense	$ 7,205,371	$ 7,811,952	$ 606,581	8 %

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Research and Development Expenses

Our R&D expenses consist primarily of contractors charges and personnel expenses associated with clinical trials and regulatory submissions; costs associated with preclinical activities such as proof of principle for new indications; toxicology studies; costs associated with cell processing and process development; facilities-related costs and supplies. Clinical trial expenses include payments to research organizations, contract manufacturers, clinical trial sites, laboratories for testing clinical samples and consultants.

Research and development expenses totaled $3,824,399 and $4,513,640 for the six months ended June 30, 2011 and 2010, respectively. The decrease of $689,241 or 15.2%, for the six months ended June 30, 2011 compared to the same period in 2010 was primarily attributable decreased spending the first half of 2011 on our ALS trials and a $432,735 reduction in non-cash stock based compensation expense in the first half of 2011 of-set by increased personnel expenses due to higher headcount.

General and Administrative Expenses

General and administrative (G&A) expenses are primarily comprised of legal fees, salaries, benefits and other costs associated with, finance, legal, human resources, information technology, public relations, facilities and other external general and administrative services.

G&A expenses totaled $3,295,708 and $3,238,649 for the six months ended June 30, 2011 and 2010, respectively. The increase of $57,059 or 1.8% for the six months ended June 30, 2011 compared to the same period in 2010 was primarily attributable to increases in personel expenses due to higher headcount.

Depreciation and Amortization

Depreciation and amortization expenses totaled $85,264 and $59,663 for the six months ended June 30, 2011 and 2010, respectively. The increase of $25,601 or 43.0% for the three months ended June 30, 2011 compared to the same period in 2010 was primarily attributable to the purchase of property and equipment and the acquisition of intangible assets.

Nonoperating income (expense)

Nonoperating income (expense) totaled $454,844 and ($3,906,349) for the six months ended June 30, 2011 and 2010, respectively. The nonoperating income or expense is discussed below.

	Six Months Ended June 30,	
	2011	2010
Nonoperating income (expense):		
Lawsuit settlement	$250,000	$-
Interest income	43,035	15,463
Interest expense	-	(2,120)
Warrant issuance and modification expense	-	(1,906,800)
Gain (loss) on change in fair value adjustment of warrant obligations	161,809	(2,012,892)
Total nonoperating income (expense)	$454,844	$(3,906,349)

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Settlement of Lawsuit

On February 2, 2011, we received $250,000 from a settlement with ReNeuron, Ltd., ending litigation between the parties. In addition to the settlement, ReNeuron agreed to make future milestone payments to Neuralstem based on ReNeuron's development of certain products which were at issue in the case. The success of Reneuron's development of these products is uncertain.

Interest Income/(Expense)

Interest income totaled $43,035 and $15,463 for the six months ended June 30, 2011 and 2010, respectively. The increase of $27,572 for the six months ended June 30, 2011 compared to the comparable period in 2010 was attributable to slightly higher interest rates.

There was no interest expense for the six months ended June 30, 2011, compared with $2,120 for the six months ended June 30, 2010. The decrease of $2,120 for the six months ended June 30, 2011 compared to the comparable period in 2010 was attributable to a payoff of loans related to insurance costs in 2010.

Warrant Expenses

The Company had a warrant modification expense that totaled $0 and $1,906,800 for the six months ended June 30, 2011 and 2010, respectively. Details of the transaction are in Note 2 to the financial statements.

On January 1, 2009 we reclassified the fair value of common stock purchase warrants, which have exercise price reset and anti-liquidation features, from equity to liability status, as if these warrants were treated as a derivative liability since their date of issue. We established a warrant liability of $6.6 million to recognize the fair value of such warrants. As of March 31, 2011, the fair value of these common stock purchase warrants had decreased to $0 as a result of the warrants expiring or being exercised for cash.

Liquidity and Capital Resources

Since our inception, we have financed our operations through the private placement of our securities, the exercise of investor warrants, and to a lesser degree from grants. In the first half of 2011our monthly cash burn rate was approximately $900,000. We estimate that we will have sufficient cash and cash equivalents to finance our current operations, pre-clinical and clinical work to the end of 2011. We cannot assure you that we will be able to secure additional financing after such time. Several factors will affect our ability to raise additional funding, including, but not limited to, the volatility of our common shares and general market conditions.

	Six Months Ended June 30,		Change in 2011 Versus 2010	
	2011	2010	$	%
Cash and cash equivalents	$ 6,141,843	$ 14,025,745	(7,883,902)	-56 %
Net cash used in operating activities	$ (4,500,092)	$ (4,878,730)	378,638	8 %
Net cash used in investing activities	$ (287,625)	$ (118,884)	(168,741)	-142 %
Net cash provided by financing activities	$ 1,668,327	$ 16,713,585	(15,045,258)	-90 %

Total cash and cash equivalents was $6,141,843 at June 30, 2011, compared with $14,025,745 at June 30, 2010. The decrease in our cash and cash equivalents of $7,883,902 or 56.2%, for the six months ended June 30, 2011 compared to the same period in 2010 was primarily attributable to a major financing completed at the end of June 2010 with no comparable financing transaction in 2011.

Net Cash Used in Operating Activities

We used $4,500,092 and $4,878,730 of cash in our operating activities for the six months ended June 30, 2011 and 2010, respectively. The decrease in our cash used of $378,638 or 7.8% for the six months ended June 30, 2011 compared to the same period in 2010 was primarily due to a planned pause in our ALS trial after the first quarter of 2011 while the Company prepared a study of trial results and submitted them to the FDA for review.

Net Cash Used in Investing Activities

We used $287,625 and $118,884 of cash in connection with investment activities for the six months ended June 30, 2011 and 2010, respectively. The increase in our use of cash of $168,741 or 142.0% for the six months ended June 30, 2011 compared to the same period in 2010 was attributed to fixed asset additions and increases in patent filing activity in the first half of 2011.

Net Cash Provided by Financing Activities

We raised $1,668,327 and $16,713,585 in net proceeds from the issuance of our securities during the six months ended June 30, 2011 and 2010, respectively.

Listed below are key financing transactions entered into by us during 2010 and for the six months ended June 30, 2011:

- On January 29, 2010, we received gross proceeds of $1,000,000 as a result of the exercise of 800,000 $1.25 Series D warrant exercises. We issued the holder of the D warrants 400,000 additional warrants with an exercise price of $1.85 in conjunction with the exercise. The new warrants have a life of one year.

    - In February of 2010, we called our $1.25 Series B Warrants. Gross exercise proceeds totaled $2,492,345.

- In March of 2010, holders of 2,699,400 Series C warrants exercised their option to purchase our common stock for 1.25 per share. Gross proceeds totaled $3,374,250. We issued the holders of the exercised C Warrants 2,699,400 additional warrants with an exercise price of $2.13 and a life of 5 years in conjunction with the exercise.

- The holder of 782,005 $1.10 placement agent warrants exercised them in March of 2010. Gross consideration totaled $860,205. We issued the holder of the exercised placement agent warrants 782,005 additional warrants with an exercise price of $2.13 and a life of 5 years in conjunction with the exercise.

- In June of 2010, we sold approximately 3,571,436 units, through a registered direct offering. Each unit consists of one common share and 0.75 common share purchase warrant. Each unit was sold for $2.80. Each warrant has an exercise price of $3.25 per share, and is exercisable for a period of three years. As a result of the offering, we received gross proceeds of approximately $10 million, and net proceeds of $9,271,519.

- In the period January through December 2010, Series A warrant holders exercised an aggregate of 583,005 warrants. The exercise price of the Series A warrants is $1.25 per share. As a result of the exercises, we received gross proceeds of $728,756.

- During the first quarter of 2011, we issued an aggregate of 1,468,775 common shares as a result of warrant exercises. As a result of the exercises, we received gross proceeds of $1,668,327.

Future Liquidity & Needs

We have incurred significant operating losses and negative cash flows since inception. We have not achieved profitability and may not be able to realize sufficient revenue to achieve or sustain profitability in the future. We do not expect to be profitable in the next several years, but rather expect to incur additional operating losses. We have limited liquidity and capital resources and must obtain significant additional capital resources in order to sustain our product development efforts, for acquisition of technologies and intellectual property rights, for preclinical and clinical testing of our anticipated products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, for general and administrative expenses and other working capital requirements. We rely on cash balances and the proceeds from the offering of our securities, exercise of outstanding warrants and grants to fund our operations.

We intend to pursue opportunities to obtain additional financing in the future through the sale of our securities and additional research grants. On October 8, 2010 we filed a shelf registration statement registering the sale of up to $50 million of our securities from time to time. The registration statement was declared effective on October 14, 2010. We anticipate conducting financing in the future based on our shelf registration statement when and if financing opportunities arise.

In November 2010, we filed a prospectus supplement that relates to the issuance and sale of up to $20,000,000 of our common stock, from time to time through a sales agreement with our sales agent Stifel, Nicolaus & Company, Incorporated. Pursuant to this sales agreement, we may sell common shares directly into the market through our sales agent from time to time. We have had no sales of our common stock under this sales agreement.

The source, timing and availability of any future financing will depend principally upon market conditions, interest rates and, more specifically, on our progress in our exploratory, preclinical and future clinical development programs. Funding may not be available when needed — at all, or on terms acceptable to us. Lack of necessary funds may require us, among other things, to delay, scale back or eliminate some or all of our research and product development programs, planned clinical trials, and/or our capital expenditures or to license our potential products or technologies to third parties.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are not required to provide the information required by this items in our quarterly reports until the first quarter of 2012.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time period specified in the SEC'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 Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Based on management's evaluation (with the participation of our CEO and CFO), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 May 7, 2008, we filed suit against StemCells, Inc., StemCells California, Inc. (collectively "StemCells") and Neurospheres Holding Ltd., (collectively StemCells and Neurospheres Holding Ltd are referred to as "Plaintiffs") in U.S. District Court for the District of Maryland, alleging that U.S. Patent No. 7,361,505 (the "'505 patent"), alleging that the '505 patent was exclusively licensed to the Plaintiffs, is invalid, not infringed, and unenforceable. See Civil Action No. 08-1173. On May 13, we filed an Amended Complaint seeking declaratory judgment that U.S. Patent No. 7,155,418 (the "'418 patent") is invalid and not infringed and that certain statements made by our CEO are not trade libel or do not constitute unfair competition as alleged by the Plaintiffs. On July 15, 2008, the Plaintiffs filed a Motion to Dismiss for Lack of Subject Matter Jurisdiction, Lack of Personal Jurisdiction, and Improper Venue or in the Alternative to Transfer to the Northern District of California. On August 27, 2008, Judge Alexander Williams, Jr. of the District of Maryland denied StemCells' Motion to Dismiss, but granted Neurospheres' motion to dismiss. On September 11, 2008, StemCells filed its answer asserting counterclaims of infringement for the '505 patent, the 418 patent, and state law claims for trade libel and unfair competition. This case was consolidated with the 2006 litigation discussed below and it is not known when, nor on what basis, this matter will be concluded.

- On July 28, 2006, StemCells, Inc., filed suit against Neuralstem, Inc. in the 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. See Civil Action No. 06-1877. We answered the Complaint denying infringement, asserting that the patents are invalid, asserting that we have intervening rights based on amendments made to the patents during reexamination proceedings, and further asserting that some of the patents are unenforceable due to inequitable conduct. Neuralstem has also asserted counterclaims that StemCells has engaged in anticompetitive conduct in violation of antitrust laws. On February 28, 2011, Neuralstem filed a Motion to Dismiss for lack of standing and concurrently filed a Motion for Leave to Amend its Answer and Counterclaim to allege that StemCells is not the exclusive licensee of the patents-in-suit and also that Neuralstem has obtained a non-exclusive license to the patents-in-suit. Both motions are fully briefed, apply to the patents at issue in Civil Action No. 08-1173 and remain pending before the Court. In addition, a Markman Hearing was held on April 8, 2011.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. 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 Our Stage of Development

We have a limited operating history and a history of losses.

Since inception in 1996 and through June 30, 2011, we have raised $98,970,412 of capital and recorded accumulated losses totaling $92,704,657. On June 30, 2011, we had a working capital surplus of $5,294,501 and stockholders' equity of $6,265,754. Our net losses for the two most recent fiscal years have been $18,387,300 and $10,364,363 for 2010 and 2009 respectively. We had no revenue from the sales of our products during 2010 and 2009. On February 2, 2011, we received $250,000 from a settlement with ReNeuron, Ltd. ending litigation between the parties In addition to the settlement, ReNeuron agreed to make future milestone payments to Neuralstem based on ReNeuron's development of certain products at issue in the case. For the six months ended June 30, 2011, we had a net loss of $3,648,724. We do not anticipate generating any revenue from the sales of our products during 2011.

Our ability to generate revenues and achieve profitability will depend upon our ability to complete the development of our proposed products, obtain the required regulatory approvals, manufacture, and market and sell our proposed products. Although we have generated some revenue in prior years, we have not generated any revenue from the commercial sale of our proposed products. Since inception, we have engaged in several related lines of business and have discontinued operations in certain areas. This limited and changing history may not be adequate to enable you to fully assess our future prospects. No assurances can be given as to exactly when, if at all, we will be able to fully develop, commercialize, market, sell and/or derive material revenues from our proposed products

We will need to raise additional capital to continue operations.

Since inception, we have relied almost entirely on external financing to fund operations. Such financing has come primarily from the sale of our securities. As of June 30, 2011, we had cash and cash equivalents on hand of $6,141,843. In the first half of 2011 we had a monthly cash burn rate of approximately $900,000. We will need to raise additional capital to fund anticipated operating expenses and future expansion. Among other things, external financing will be required to further develop our technologies and products, as well as to pay general operating costs. We currently have two ongoing Phase I clinical trials and are seeking the approval of a third. As a result of our ongoing, as well as proposed trials, we will need additional capital in order to pay for expenses associated with these trials as well as fund our general operations.

We have expended and expect to continue to expend substantial cash in the research, development, clinical and pre-clinical testing of our stem cell technologies with the goal of ultimately obtaining FDA approval to market our proposed products. We will require additional capital to conduct research and development, establish and conduct clinical and pre-clinical trials, enter into commercial-scale manufacturing arrangements and to provide for marketing and distribution of our products. We cannot assure you that financing will be available if needed. If additional financing is not available, we may not be able to fund operations and planned growth, develop or enhance our technologies, take advantage of business opportunities or respond to our competitive market pressures. If we exhaust our cash reserves and are unable to realize adequate additional financing, we may be unable to meet operating obligations which could result in us initiating bankruptcy proceedings or delaying, or eliminating some or all of our research and product development programs.

Additional financing requirements will result in dilution to existing stockholders.

We do not generate any revenue. Accordingly, we will be required to issue our securities in order to secure additional financing. The issuance of additional securities may be dilutive to current shareholders. We are authorized to issue 150,000,000 shares of common stock and 7,000,000 shares of preferred stock. Such securities may generally be issued without the approval or consent of our stockholders. The issuance of such securities may result in substantial dilution.

Risks Relating to Our Business

Our business is dependent on the successful development of our product candidates.

At present our ability to progress as a company is significantly dependent on our two (2) product candidates currently in Phase I trials. Any clinical, regulatory or other development that significantly delays or prevents us from completing any of our trials, any material safety issue or adverse side effect to any study participant in these trials, or the failure of these trials to show the results expected would likely depress our stock price significantly and could prevent us from raising the additional capital we will need to further develop our cellular technologies. Moreover, any material adverse occurrence in our clinical trials could substantially impair our ability to initiate clinical trials to test our product candidates in other potential indications. This, in turn, could adversely impact our ability to raise additional capital and pursue our planned research and development efforts.

Our business relies on stem cell technologies that we may not be able to commercially develop.

We have concentrated the majority of our research on stem cell technologies. Our ability to generate revenue and operate profitably will depend on being able to develop these technologies for human applications. These are emerging technologies and have limited human applications. We cannot guarantee that we will be able to develop our technologies or that such development will result in products with any commercial utility or value. We anticipate that the commercial sale of such products and royalty/licensing fees related to the technology, will be our primary sources

of revenues. If we are unable to develop our technologies, we may never realize any revenue.