PICO HOLDINGS INC /NEW
Form 10-K
March 14, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

____

FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 033-36383
PICO HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	94-2723335
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

3480 GS Richards Blvd, Suite 101 Carson City, Nevada 89703

(Address of Principal Executive Offices, including Zip Code)
Registrant's Telephone Number, Including Area Code
(775) 885-5000
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $0.001	Nasdaq Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company, " and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):
Large accelerated filer ¨Accelerated filer ý Non-accelerated filer ¨ Smaller reporting company ýNon-accelerated filer ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

At June 29, 2018, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant (based upon the closing sale price of such shares on the Nasdaq Global Select Market on June 29, 2018) was $229.8 million, which excludes shares of common stock held in treasury and shares held by executive officers, directors, and stockholders whose ownership exceeds 10% of the registrant's common stock outstanding at June 29, 2018. This calculation does not reflect a determination that such persons are deemed to be affiliates for any other purposes.

On February 28, 2019, the registrant had 20,482,479 shares of common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the United States Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2019 Annual Meeting of Shareholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Annual Report on Form 10-K.

ANNUAL REPORT ON FORM 10-K
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PART I

Note About "Forward-Looking Statements"

This Annual Report on Form 10-K (including "Management's Discussion and Analysis of Financial Condition and Results of Operations") contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995, regarding our business, financial condition, results of operations, and prospects, including, without limitation, statements about our expectations, beliefs, intentions, anticipated developments, and other information concerning future matters. Words such as "may", "will", "could", "expects", "anticipates", "intends", "plans", "believes", "seeks", "estima similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Annual Report on Form 10-K.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on current expectations and assumptions and are not guarantees of future performance. Consequently, forward-looking statements are inherently subject to risk and uncertainties, and the actual results and outcomes could differ materially from future results and outcomes expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under Part I, Item 1A "Risk Factors", as well as those discussed elsewhere in this Annual Report on Form 10-K and in other filings we may make from time to time with the United States Securities and Exchange Commission ("SEC") after the date of this report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statements, whether as a result of new information, subsequent events, or otherwise, in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K, unless otherwise required by law. Readers are urged to carefully review and consider the various disclosures made in this Annual Report on Form 10-K, and the other filings we may make from time to time with the SEC after the date of this report, which attempt to advise interested parties of the risks and uncertainties that may affect our business, financial condition, results of operations, and prospects.

ITEM 1. BUSINESS

Introduction

PICO Holdings, Inc. is a holding company that was incorporated in 1981. In this Annual Report on Form 10-K, PICO and its subsidiaries are collectively referred to as "PICO," the "Company," or by words such as "we," "us," and "our." Our business is primarily operated through our wholly owned subsidiary, Vidler Water Company, Inc. ("Vidler").

Our objective is to maximize long-term shareholder value. Currently, we believe the highest potential return to shareholders is from a return of capital. As we monetize assets, we intend to return capital back to shareholders through a stock repurchase program or by other means such as special dividends. We may, from time to time, reinvest a portion of proceeds from asset monetizations in further development of existing assets if we believe the returns on such reinvestment outweigh the benefits of a return of capital.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports, are made available free of charge on our web site (www.picoholdings.com) as soon as reasonably practicable after the reports are electronically filed or furnished with the SEC. Our website also contains other material about our Company. Information on our website is not incorporated by reference into this Annual Report on Form 10-K. Our corporate office is located at 3480 GS Richards Blvd., Suite 101, Carson City, Nevada 89703, and our telephone number is (775) 885-5000.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K. Additional information regarding the performance of and recent developments in our operating segments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

We are primarily focused on monetizing our existing water rights and storage credits that we own in Arizona, Colorado, Nevada and New Mexico. The long-term future demand for our existing water assets is driven by population and economic growth relative to currently available water supplies in the southwestern United States. We have developed sources of water for municipal and industrial use, either from existing supplies of water, such as water used for agricultural purposes, acquired unappropriated (previously unused) water, or discovered new water sources based on science and targeted exploration. We are not a water utility, and do not currently intend to enter into regulated utility activities.

A water right is the legal right to divert water and put it to beneficial use. Water rights are real property rights which can be bought and sold and are commonly measured in acre-feet ("AF"), which is a measure of the volume of water required to cover an area of one acre to a depth of one foot and is equal to 325,850 gallons. The value of a water right depends on a number of factors, which may include location, the seniority of the right, whether or not the right is transferable, or if the water can be moved from one location to another. We believe we have purchased water rights at prices consistent with their then current use, which was typically agricultural in nature, with the expectation that the value would increase as we converted the water rights through the development process to a higher use, such as municipal and industrial use. We acquired and developed water resources with the expectation that such water resources would be the most competitive source of water (the most economical source of water supply) to support new growth in municipalities or new commercial and industrial projects.

Over the past eight years, the population growth of the states where we own water rights and storage credits has exceeded the national growth rate collectively and individually, with the exception of New Mexico. According to the Census Bureau's estimate of state population changes for the period April 1, 2010 to July 1, 2018, Nevada's growth rate was 12.4%, Arizona was 12.2%, Colorado was 13.2%, and New Mexico was 1.8%. These population growth statistics compare to the national total growth rate of 5.96% over the same period.

Historically, a significant portion of the Southwest's water supplies have come from the Colorado River. The balance is provided by other surface rights, such as rivers and lakes, groundwater (water pumped from underground aquifers), and water previously stored in reservoirs or aquifers. Prolonged droughts (decreased snow pack runoff and the related decreased surface water) and rapid population growth in the past twenty years have exacerbated the region's general water scarcity.

In December 2012, the U.S. Department of the Interior released a report titled: The Colorado River Basin Water Supply and Demand Study, examining the future water demands on the Colorado River Basin. The report projects water supply and demand imbalances throughout the Colorado River Basin and adjacent areas over the next 50 years. The average imbalance in future supply and demand is projected to be greater than 3.2 million acre-feet per year by 2060. The study projects that the largest increase in demand will come from municipal and industrial users as a result of population growth. The Colorado River Basin currently provides water to approximately 40 million people, and the study estimates that this number could nearly double to approximately 76.5 million people by 2060, under a rapid growth scenario.

Certain areas of the Southwest confronting long-term growth have insufficient known supplies of water to support their future economic and population growth. The inefficient allocation of available water between agricultural users and municipal or industrial users, the lack of available known water supplies in a particular location, or inadequate infrastructure to fully utilize or store existing and new water supplies provide opportunities for us to apply our water resource development expertise.

The development of our water assets required significant capital and expertise. A complete project, from acquisition, through development, permitting, and sale is typically a long-term endeavor. In the regions in which we operate, new housing and commercial and industrial developments require an assured, or sustainable, water supply (for example, in Arizona, access to water supplies for at least 100 years is required) before a permit for the development will be issued.

We have acquired or developed water rights and water related assets in Arizona, Idaho, Nevada, Colorado, and New Mexico. We also developed and operate our own water storage facility near Phoenix, Arizona, utilize water storage capacity operated by third parties in Arizona, and “bank,” or store water for future growth with municipalities in Nevada and New Mexico.

We have also entered into “teaming” and joint resource development arrangements with third parties who have water assets but lack the capital or expertise to commercially develop these assets. The first of these arrangements was a water delivery teaming agreement in southern Nevada with the Lincoln County Water District (“Lincoln/Vidler”), which is developing water resources in Lincoln County, Nevada. In northern Nevada, we have also entered into a joint development agreement with Carson City and Lyon County, Nevada to develop and provide water resources in Lyon County as well as a water banking agreement with Truckee Meadows Water Authority in Reno, Nevada.

We generate revenues by:

- selling our developed water rights to real estate developers, power generating facilities or other commercial and industrial users who must secure rights to an assured, or sustainable, supply of water in order to receive permits for their development projects;
- selling our developed water rights to water utilities, municipalities and other government agencies for their specific needs, including to support population and economic growth;
- selling our stored water to state agencies, commercial developers or municipalities that have either exhausted their existing water supplies or require reserves for future water obligations, or, in instances where our water represents the most economical source of water, for their commercial projects or communities; and
- leasing and selling of our water or land.

We owned the following significant water resource and water storage assets at December 31, 2018:

Fish Springs Ranch

We own a 51% membership interest in, and are the managing partner of, Fish Springs Ranch, LLC ("FSR"), which owns the Fish Springs Ranch and other properties totaling approximately 7,310 acres in Honey Lake Valley in Washoe County, Nevada approximately 40 miles north of Reno, Nevada. FSR also owns approximately 12,907 acre-feet of permitted water rights related to the properties of which 7,907 acre-feet are designated as water credits, transferable to other areas within Washoe County (such as Reno and Sparks) to support community development. Although the additional 5,000 AF has been approved and permitted by the Nevada State Engineer, existing federal rights of way will need to be updated before such water is transferable. To date, we have funded all of the operational expenses, development, and construction costs incurred in this partnership. Certain of the development and construction costs are treated as preferred capital under the partnership agreement which among other things, entitles us to receive interest on the initial balance of the preferred capital and the accumulated interest at the London Inter-Bank Offered Rate ("LIBOR") plus 450 basis points. The preferred capital and accumulated interest is first in line to be paid out as the partnership generates sufficient revenue. At December 31, 2018 the balance in the preferred capital account, including $87.1 million of accrued interest, was $181.7 million and the associated interest rate was 7.31%.

During 2006, we started construction of a pipeline and an electrical substation to provide the power required to pump the water to the north valleys region of Reno. In July 2008, we completed construction of and dedicated our pipeline and associated infrastructure to Washoe County, Nevada under the terms of an Infrastructure Dedication Agreement ("IDA") between Washoe County and FSR. Under the provisions of the IDA, Washoe County is responsible for the operation and maintenance of the pipeline and we own the exclusive right to the capacity of the pipeline to allow for the sale of water for future economic development in the north valley area of Reno. As of December 31, 2018, our remaining 7,907 acre-feet of water that has regulatory approval to be imported to the north valleys of Reno is available for sale under a Water Banking Trust Agreement entered into between FSR and Washoe County. Under the Water Banking Trust Agreement, Washoe County holds our water rights in trust. We can sell our water credits to developers, who must then dedicate the water to the local water utility for service. In December 2014, Washoe County Water Utilities merged with the Truckee Meadows Water Authority ("TMWA"), consolidating water supply service in Washoe County. Also effective at the end of 2014, FSR, Washoe County, and TMWA consented to the assignment of the Water Banking Trust Agreement and the IDA to the Truckee Meadows Water Authority.

The property is a working ranch and is comprised of 7,310 acres of land owned by us and approximately 180,000 acres of a Bureau of Land Management grazing allotment. The land and allotment are currently leased to a cattle company for grazing. The ranch also grows alfalfa hay and grass that is sold to cattle operators, dairies and feed stores. We have entered into an option agreement with a solar company to lease up to 2,600 acres for solar panels and battery storage.

Carson/Lyon

The capital of Nevada, Carson City, and Lyon County are located in the western part of the state, close to Lake Tahoe and the border with California. While Carson City's housing growth has been and is expected to be minimal due to land constraints, there is planned growth for the Dayton corridor, directly east of Carson City. The planned growth in this area is anticipated to be driven by the employment growth at the Tahoe Reno Industrial Center ("TRIC") and the construction of the extension of the USA Parkway, completed in August 2017, which connects Interstate route 80 to TRIC and to U.S. route 50 near Silver Springs, Lyon County. There are currently few existing water sources to support future growth and development in the Dayton corridor area and we have worked with Carson City and Lyon County for several years on ways to deliver water to support this expected growth.

We have development and improvement agreements with both Carson City and Lyon County to provide water resources for planned future growth in Lyon County and to connect, or “intertie,” the municipal water systems of Carson City and Lyon County. The agreements allow for certain river water rights owned or controlled by us to be conveyed for use in Lyon County. The agreements also allow us to bank water with Lyon County and authorize us to build the infrastructure to upgrade and inter-connect the Carson City and Lyon County water systems.

We own or control water rights consisting of both Carson River agriculture designated water rights and certain municipal and industrial designated water rights. We anticipate that we will have up to approximately 3,500 acre-feet available for municipal use in Lyon County for future development, if and when demand occurs, principally by means of delivery through the new infrastructure we constructed.

Vidler Arizona Recharge Facility

We built and received the necessary permits to operate a full-scale water “recharge” facility that allowed us to bank water underground in the Harquahala Valley, Arizona. “Recharge” is the process of placing water into storage underground. When needed, the water will be “recovered,” or removed from storage, through groundwater wells. This stored water creates a long term storage credit (“LTSC”). The Arizona Department of Water Resources tracks and documents the LTSCs stored throughout Arizona.

We recharged Colorado River water at this facility, which is a primary source of water for the Lower Basin States of Arizona, California, and Nevada. The water storage facility is strategically located adjacent to the Central Arizona Project (“CAP”) aqueduct, a conveyance canal running from Lake Havasu to Phoenix and Tucson. Our recharged water was purchased from surplus flows of CAP water. Proximity to the CAP aqueduct provides a competitive advantage as it minimizes the cost of water conveyance of our LTSCs.
Potential users include industrial companies, power-generating companies, developers, and local governmental political subdivisions in Arizona, including municipalities and incorporated areas, and out-of-state users such as municipalities and water agencies in Nevada and California. The Arizona Water Banking Authority (“AWBA”) has the responsibility for intrastate and interstate storage of water for governmental entities. To date, we have not stored water at the facility for any third party and there is no longer excess water which can be banked.

While Arizona was the only southwestern state with surplus flows of Colorado River water available for storage, there is no surplus flows available to us as drought conditions have reduced the flow of the Colorado River and other water users have fully utilized their water allocations. In the future, we do not anticipate purchasing and storing surplus flows of Colorado River water and we have discontinued using the recharge element of the storage site. At December 31, 2018, we had LTSCs of approximately 250,600 acre-feet of water in storage at the facility. To date, we have not generated any revenue from selling our stored water at this facility.

Phoenix AMA Water Storage

As of December 31, 2018, we owned approximately 53,600 acre-feet of LTSCs stored in the Phoenix Active Management Area (“AMA”), of which 13,445 AF are under agreements of purchase and sale by third parties expiring in December 2019 and November 2021. However, the buyers have the option to terminate the agreements with 10 days notice without any obligation to purchase any additional LTSCs. Water stored in the AMA may be recovered and used anywhere in the AMA and could have a variety of uses for residential and commercial developments within the Phoenix metropolitan area. All of the storage sites we utilize within the AMA are operated by third parties.

Harquahala Valley Ground Water Basin

Any new residential development in Arizona within an AMA must obtain a permit from the Arizona Department of Water Resources certifying a “designated assured water supply” sufficient to sustain the development for at least 100 years. Harquahala Valley groundwater meets the designation of assured water supply.

As of December 31, 2018, we owned 1,926 acres of land and have the ability to utilize 6,040 acre-feet of groundwater for development within the Harquahala Basin. The Analysis of Adequate Water Supply for the 6,040 acre-feet must be renewed before December 2021 in order to maintain these rights.

Lincoln County, Nevada Water Delivery and Teaming Agreement

Lincoln County Nevada ("Lincoln") and Vidler entered into a water delivery teaming agreement to locate and develop water resources in Lincoln County, Nevada for planned projects under the Lincoln County master plan. Under the agreement, proceeds from sales of water will be shared equally after Vidler is reimbursed for the expenses incurred in developing water resources in Lincoln County. Lincoln/Vidler has filed applications for more than 100,000 acre-feet of water rights with the intention of supplying water for residential, commercial, and industrial use, as contemplated by the county's approved master plan. We believe that this is the only known new source of water for Lincoln County. Although it is uncertain, Vidler currently anticipates that over the long-term, up to 40,000 acre-feet of water rights will ultimately be permitted from these applications, and put to use for planned projects in Lincoln County.

Tule Desert Groundwater Basin

Lincoln/Vidler jointly filed permit applications in 1998 for approximately 14,000 acre-feet of water rights for industrial use from the Tule Desert Groundwater Basin in Lincoln County, Nevada. In November 2002, the Nevada State Engineer awarded Lincoln/Vidler a permit for 2,100 acre-feet of water rights, which Lincoln/Vidler subsequently sold in 2005, and ruled that an additional 7,240 acre-feet could be granted pending additional studies by Lincoln/Vidler (the "2002 Ruling"). Subsequent to the 2002 Ruling and consistent with the Nevada State Engineer's conditions, we completed these additional engineering and scientific studies.

On April 15, 2010, Lincoln/Vidler and the Nevada State Engineer announced a Settlement Agreement with respect to litigation between the parties regarding the amount of water to be permitted in the Tule Desert Groundwater Basin. The Settlement Agreement resulted in the granting to Lincoln/Vidler of the original application of 7,240 acre-feet of water rights with an initial 2,900 acre-feet of water rights available for sale or lease by Lincoln/Vidler. The balance of the water rights (4,340 acre-feet) is the subject of staged pumping and development over the next several years to further refine the modeling of the basin and potential impacts, if any, from deep aquifer pumping in the remote, unpopulated desert valley in Lincoln County, Nevada.

The Tule Desert Groundwater Basin water resources were developed by Lincoln/Vidler to support the Lincoln County Recreation, Conservation and Development Act of 2004 (the "Land Act"). The water permitted under the Settlement Agreement is anticipated to provide sufficient water resources to a portion of the Land Act properties.

Kane Springs

In 2005, Lincoln/Vidler agreed to sell water to a developer of Coyote Springs, a new planned residential and commercial development 60 miles north of Las Vegas, as and when supplies were permitted from Lincoln/Vidler's existing applications in Kane Springs, Nevada. Lincoln/Vidler currently has priority applications for approximately 17,375 acre-feet of water in Kane Springs for which the Nevada State Engineer has requested additional data before making a determination on the applications from this groundwater basin. The actual permits received may be for a lesser quantity, which cannot be accurately predicted.

Currently, we have an option agreement with a developer to sell our remaining 500 acre-feet of water rights we own in this area at a price of $6,358 per acre-foot that is escalated at 7.5% per year from September 2017. The agreement expires in September 2019 with a cost to exercise of approximately $3.5 million. To date, the developer has made all required annual option payments.

The following table summarizes our other water rights and real estate assets at December 31, 2018:

Name and location of asset	Brief description	Present commercial use
Nevada:		
Truckee River Water Rights	Approximately 299 acre-feet of Truckee River water rights permitted for municipal use.	Water rights are available to support development through sale, lease, or partnering arrangements.
Dry Lake	Vidler owns 600 acres of agricultural and ranch land in Dry Lake Valley North. Lincoln/Vidler owns the 1,009 acre-feet of permitted agricultural groundwater rights associated with the land. Located in Lincoln County.	Water rights and land are available to support development through sale, lease, or partnering arrangements.
Muddy River	267 acre-feet of water rights. Located 35 miles east of Las Vegas.	Currently leased to Southern Nevada Water Authority in the Muddy River Irrigation Company.
Dodge Flat	1,397 acre-feet of permitted municipal and industrial use water rights, and 1,064 acres of land. Located in Washoe County, east of Reno.	Water rights and land are currently under contract. In January 2018 31.5 acre-feet were sold to a mining company. In November 2014, we entered into an option agreement with a solar developer for 1,064 acres of land and 18AF of water rights.
Colorado:		
Tunnel	Approximately 152 acre-feet of water rights. Located in Summit County (the Colorado Rockies), near Breckenridge.	57 acre-feet of water leased under long term leases. 95 acre-feet are available for sale or lease.
New Mexico:		
Campbell Ranch	Application for a new appropriation of 350 acre-feet of ground water. Vidler is in partnership with the land owner. The water rights would be used for a new residential and commercial development. Located 25 miles east of Albuquerque.	In November 2014, our application was denied by the New Mexico State Engineer causing us to record an impairment loss of $3.5 million which reduced the capitalized costs and other assets of this project to zero. We appealed this decision on November 19, 2014. The appeal was denied in February 2019.
Lower Rio Grande Basin	Approximately 1,215 acre-feet of agricultural water rights. Located in Dona Ana and Sierra Counties.	Water is available for sale, lease or other partnering opportunities. In 2014, we entered into a long term lease for a portion of these water rights.
Middle Rio Grande Basin	Approximately 99 acre-feet of water rights permitted for municipal use.	Water is available for sale, lease, or other partnering opportunities.

Located in Santa Fe and Bernalillo Counties.

Employees

At December 31, 2018, we had 17 employees.

Executive Officers

The executive officers of PICO are:

Name	Age	Position
Dorothy A. Timian - Palmer	61	President and Chief Executive Officer
Maxim C. W. Webb	57	Executive Chairman of the Board
John T. Perri	49	Chief Financial Officer and Secretary

Ms. Timian - Palmer has served as our President and Chief Executive Officer since August 2018. Ms. Timian - Palmer has been Chief Executive Officer of Vidler Water Company, Inc. since October 2016 and President of Vidler Water Company. Inc. since October 2008.

Mr. Webb has served as our Executive Chairman since August 2018. Prior to his appointment as Executive Chairman, Mr. Webb was our President and Chief Executive Officer, and a member of our Board of Directors since October 2016 and as Chairman of the Board of Directors since December 2016. Mr. Webb has been an officer of Vidler Water Company, Inc. since 2001. He has served in various capacities since joining our company in 1998, including Chief Financial Officer, Treasurer, Executive Vice President and Secretary from 2001 to October 2016.

Mr. Perri has served as our Chief Financial Officer and Secretary since October 2016. He has served in various capacities since joining our company in 1998, including Vice President, Chief Accounting Officer from 2010 to October 2016, Financial Reporting Manager, Corporate Controller and Vice President, Controller from 2003 to 2010.

ITEM 1A. RISK FACTORS

The following information sets out factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Annual Report on Form 10-K and those we may make from time to time. You should carefully consider the following risks, together with other matters described in this Form 10-K or incorporated herein by reference in evaluating our business and prospects. If any of the following risks occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our securities could decline, in some cases significantly.

General economic conditions could have a material adverse effect on our financial results, financial condition and the demand for and the fair value of our assets.

Our operations are sensitive to the general economic conditions of the local markets in which our assets are located although international, national, and regional economic conditions may also impact our markets. General poor economic conditions and the resulting effect of non-existent or slow rates of growth in the markets in which we operate could have a material adverse effect on the demand for our water assets. These poor economic conditions include higher unemployment, inflation, deflation, decreases in consumer demand, changes in buying patterns, a weakened dollar, higher consumer debt levels, higher interest rates, especially higher mortgage rates, and higher tax rates and other changes in tax laws or other economic factors that may affect commercial and residential real estate development.

Specifically, high national, regional, or local unemployment may arrest or delay any significant growth of the residential real estate markets in which we operate, which could adversely affect the demand for our water assets. Any prolonged lack of demand for our water assets could have a significant adverse effect on our revenues, results of operations, cash flows, and the return on our investment from these assets.

Our future revenue is uncertain and depends on a number of factors that may make our revenue, profitability, cash flows, and the fair value of our assets volatile.

Our future revenue and profitability related to our water resource and water storage operations will primarily be dependent on our ability to develop and sell or lease our water assets. In light of the fact that our water resource and water storage operations represent the majority of our overall business at present, our long-term profitability and the fair value of the assets related to our water resource and water storage operations could be affected by various factors, including the drought in the southwest, regulatory approvals and permits associated with such assets, transportation arrangements, and changing technology. We may also encounter unforeseen technical or other difficulties which could result in cost increases with respect to our water resource and water storage development projects. Moreover, our profitability and the fair value of the assets related to our water resource and water storage operations is significantly affected by changes in the market price of water. Future sales and prices of water may fluctuate widely as demand is affected by climatic, economic, demographic and technological factors as well as the relative strength of the residential, commercial, financial, and industrial real estate markets. Additionally, to the extent that we possess junior or conditional water rights, during extreme climatic conditions, such as periods of low flow or drought, our water rights could be subordinated to superior water rights holders. The factors described above are not within our control.

One or more of the above factors in one or more of our operating segments could impact our revenue and profitability, negatively affect our financial condition and cash flows, cause our results of operations to be volatile, and could negatively impact our rate of return on our water assets and cause us to divest such assets for less than our intended return on our investment.

A downturn in the homebuilding and land development sectors in our markets would materially adversely affect our business, results of operations, and the demand for and the fair value of our assets.

The homebuilding industry experienced a significant and sustained downturn in recent years having been impacted by factors that include, but are not limited to, weak general economic and employment growth, a lack of consumer confidence, large supplies of resale and foreclosed homes, a significant number of homeowners whose outstanding principal balance on their mortgage loan exceeds the market value of their home, and tight lending standards and practices for mortgage loans that limit consumers' ability to qualify for mortgage financing to purchase a home. These factors resulted in an industry-wide weakness in demand for new homes and caused a material adverse effect on the growth of the local economies and the homebuilding industry in the southwestern United States ("U.S.") markets where our water assets are located, including the states of Nevada, Arizona, Colorado, and New Mexico. The continuation of the recent improvement in residential and commercial real estate development process and activity is essential for our ability to generate operating income in our water resource and water storage business. We are unable to predict whether and to what extent this recovery will continue or its timing. Any future slow-down in real estate and homebuilding activity could adversely impact various development projects within the markets in which our water assets are located and this could materially affect the demand for and the fair value of these assets and our ability to monetize these assets. Declines and weak conditions in the U.S. housing market have reduced our revenues and created losses in our water resource and water storage, and land development and homebuilding businesses in prior years and could do so in the future. Additionally, the recent tax law changes limiting, among other things, deductibility of mortgage interest and of state and local income taxes may have an impact on the national housing market and in the markets in which we operate, although the Nevada market may be less impacted due to the lack of a state income tax.

We may not be able to realize the anticipated value of our water assets in our projected time frame, if at all.

We expect that the current rate of growth of the economy will continue to have an impact on real estate market fundamentals. Depending on how markets perform both in the short and long-term, the state of the economy, both nationally and locally in the markets where our assets are concentrated, could result in a decline in the value of our existing water assets, or result in our having to retain such assets for longer than we initially expected, which would negatively impact our rate of return on our water assets, cause us to divest such assets for less than our intended return on investment, or cause us to incur impairments on the book values of such assets to estimated fair value. Such events would adversely impact our financial condition, results of operations and cash flows.

The fair values of our water assets are linked to growth factors concerning the local markets in which our assets are concentrated and may be impacted by broader economic issues.

Both the demand for, and fair value of, our water assets are significantly affected by the growth in population and the general state of the local economies where our real estate and water assets are located. The local economies where our real estate and water assets are located, primarily in Arizona and northern Nevada, but also in Colorado and New Mexico, may be affected by factors such as the local level of employment, the availability and cost of financing for real estate development transactions, and affordability of housing. The unemployment rate in these states, as well as issues related to the credit markets, may prolong a slowdown of the local economies where our real estate and water assets are located. This could materially and adversely affect the demand for, and the fair value of, our real estate and water assets and, consequently, adversely affect our growth and revenues, results of operations, cash flows and the return on our investment from these assets.

The fair values of our water assets may decrease which could adversely affect our results of operations with losses from asset impairments.

The fair value of our water resource and water storage assets depends on market conditions. We acquired water resources and land for expansion into new markets and for replacement of inventory and expansion within our current markets. The valuation of real estate and water assets is inherently subjective and based on the individual characteristics of each asset. Factors such as changes in regulatory requirements and applicable laws, political conditions, the condition of financial markets, local and national economic conditions, change in efficiencies of water use, the financial condition of customers, potentially adverse tax consequences, and interest and inflation rate fluctuations subject valuations to uncertainties. In addition, our valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. If population growth and, as a result, water and/or housing demand in our markets fails to meet our expectations when we acquired our real estate and water assets, our profitability may be adversely affected and we may not be able to recover our costs when we sell our real estate and water assets. We regularly review the value of our water assets. These reviews have resulted in recording significant impairment losses in prior years to our water resource assets. Such impairments have adversely affected our results of operations and our financial condition in those years.

If future market conditions adversely impact the anticipated timing of and amount of sales of our water assets we may be required to record further significant impairments to the carrying value of our water assets, which would adversely affect our results of operations and our financial condition.
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The following discussion and analysis provides information that management believes is relevant for an assessment and understanding of our results of operations and financial condition. The following selected financial information is derived from our historical financial statements and should be read in conjunction with such financial statements and notes thereto set forth elsewhere herein and the Forward-Looking Statements explanation included herein. This information should also be read in conjunction with our audited historical consolidated financial statements which are included in our Form 10-K for the fiscal year ended December 31, 2007 filed with the Securities and Exchange Commission on March 10, 2008.

Overview

Founded in 2005, Medistem Inc. is a U.S. based biotechnology company focused on the development and commercialization of adult stem cell-based technologies used in the treatment of inflammatory and degenerative diseases.

Our primary focus is commercialization of our novel stem cell type, termed the endometrial regenerative cell (ERC), whose discovery won the 2007 Publication of the Year Award in Medicine from BioMed Central, a publisher of more than 200 peer reviewed journals. Sourced from menstrual blood, these cells originate in the endometrium where they are believed to have one vital function: to make new blood vessels (angiogenesis). Stimulation of this process is believed to offer hope for patients with circulatory disorders in which certain tissues are lacking oxygen because of restricted blood flow.

Our initial product candidates are aimed at the treatment of critical limb ischemia (1.1 million people in the USA) and ischemic heart disease (18.5 million people in the USA). These are conditions for which we believe currently approved therapies are insufficient.

The ability of stem cells to produce blood vessels is widely known and at least four other companies are in preclinical or clinical trials using stem cells for critical limb ischemia. However, such therapies either consist of painful invasive procedures (such as bone marrow extraction) or utilize a source of stem cells (placental or umbilical cord blood) that is expensive to manufacture and requires immunologic matching. The unique nature of ERC cells and their ample supply provide competitive advantages to other stem cell types for the treatment of these conditions.

Together with our management, researchers from Scripps Research Institute, University of Western Ontario and Indiana University have assisted in the characterization of Medistem's cells and the development of written protocols for initiating FDA approved clinical trials. We plan to submit our Investigational New Drug Application (IND) with the FDA in late 2008.

Our management has significant experience in discovering cellular based therapeutics and translating these into commercial opportunities, and is experienced at developing intellectual property positions and navigating the FDA approval process. We have developed an extensive collaborator network of leading scientists from world-renowned institutions and continually add to this network. Centered on the strengths of management, our core business strategy is to focus on initial discoveries and early-stage development. If early clinical trials are successful, we expect to monetize our discoveries through outlicensing, co-development or outright sale to third parties.

We operate a lean infrastructure and our corporate expenses are largely self-funded through licensing revenues.

License Activities

Several technologies, trade secrets, and know-how have been licensed to external parties involved in development and application of regenerative technologies. We have engaged in recent licensing activities with entities in Costa Rica and India. These licensing activities permit us to finance a portion of our research and development activities.

Recent Developments

Discovery of ERC Cells Wins Medicine Publication of the Year

In March 2008, a recent article co-authored by our CEO, Dr. Thomas Ichim, and Dr. Xiaolong Meng entitled, "Endometrial regenerative cells: a novel stem cell population" received BioMed Central's research article of the year in medicine award. The award recognizes excellence in research that has been made universally accessible through open access publication in one of BioMed Central's more than 170 peer reviewed scientific journals. The award was presented to Dr. Ichim and Dr. Meng at the Royal Society of Medicine in London, England.

ERC Type Cells Receive Independent Verification

Aspects of our work were recently successfully reproduced and advanced by scientists at the prestigious Keio University School of Medicine located in Tokyo, Japan. In an independent publication authored by scientists at the Keio University School of Medicine, a stem cell type found in menstrual blood similar to our ERC cells was recently described as capable of not only becoming heart tissue in vitro, but also having ability to repair injured hearts in animal models of heart attacks.

Expansion of Strategic Advisory Board

During the first quarter of 2008, we expanded our strategic advisory board to include Dr. Nora Sarvetnick of the Scripps Research Institute, La Jolla, California. Dr. Sarvetnick is a widely respected research scientist and a collaborator of ours on the testing of the ERC cells in animal studies. Dr. Sarvetnick joined the faculty at The Scripps Research Institute in 1990 and in 2000 became a full Professor in the Department of Immunology. She has over 190 peer reviewed publications and has received a number of international awards, which include a Career Development Award from the Juvenile Diabetes Foundation (1990-1993) and a Multidisciplinary Diabetes Program Project Award from the Juvenile Diabetes Foundation (1995-2000). She has also twice been awarded an American Diabetes Association Mentor-Based Postdoctoral Fellowship Program Award (1996-2002 and 2005-2009).

Dr. Sarvetnick joins the existing SAB board members Drs. Keith March, Mike Murphy, and Kyle Chan.

New Licensing Activities

On March 20, 2008, we entered into a licensing agreement with an Indian company for the exclusive use of Medistem technologies and know-how in the countries of India, Malaysia, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives, Bhutan, Afghanistan, Indonesia and Thailand. In exchange for the grant of the exclusive license, we received cash, a non-controlling equity interest in the licensee and a license to use and commercialize all of the licensee's current and future stem cell technologies. The Company recognized revenue of $250,000 during the first quarter of 2008 associated with this licensing agreement.

Change in Officers and Directors

On March 18, 2008, our board of directors appointed Dr. Thomas Ichim as our Chief Executive Officer. Dr. Ichim, our former head of research and development activities, succeeds Neil Riordan who continues serving as President and Chairman of the Board of Directors. The change was made as part of our ongoing succession planning and enables Dr. Riordan to devote his efforts to directing research and expanding market opportunities for Medistem. Dr. Ichim was also elected to our Board of Directors.

Effective March 31, 2008, John Peterson retired from our Board of Directors.

Effective May 16, 2008, Chris McGuinn resigned from his position as Chief Operating Officer of our company.

Results of Operations

Effective December 31, 2007, we renegotiated our license agreement with ICM. Because of the modification to the license agreement, ICM no longer meets the criteria for consolidation and was deconsolidated in our financial statements beginning December 31, 2007. The financial data presented in this quarterly report for all periods prior to December 31, 2007 include the operating results of ICM and Medistem as de-consolidation did not occur until December 31, 2007.

Revenues

Revenues		2008		2007		Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	$	160,200	$	470,828	$	(310,628)	(66.0)%
Six Months Ended June 30,	$	531,145	$	948,158	$	(417,013)	(44.0)%

Revenues consist of fees generated through licensing activities. For the three months ended June 30, 2008, revenues consisted of royalties from our license agreement with ICM. For the six months ended June 30, 2008, revenues included $250,000 related to the new license agreement entered into for the use of our technologies in India and certain countries in Asia and the Middle East, and $281,145 of royalties from our license agreement with ICM. During the three and six months ended June 30, 2007, ICM was consolidated in our results of operations and revenues attributable to ICM totaled $385,398 and $855,528 respectively. On a pro forma basis, had our renegotiated license agreement with ICM been effective at January 1, 2007 (resulting in the deconsolidation of ICM) our revenues would have been $162,510 and $263,736 during the three and six months ended June 30, 2007 respectively.

Factors that influence future revenue growth include our ability to develop and refine commercially attractive know-how and intellectual property, finding new licensing opportunities, the effectiveness of our licensees' marketing activities and the growth of their businesses, medical acceptance of adult stem cell related treatments, the expansion of our methods using adult stem cells to combat disease, the continued stability and desirability of licensee clinic locations, and client satisfaction rates.

Cost of Services

Cost of Services	2008	2007	Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	$ 4,373	$ 377,836	$ (373,463)	(98.8)%
Six Months Ended June 30,	$ 208,508	$ 743,614	$ (535,106)	(72.0)%

Cost of services consists of expenses related to the performance of our license agreements. Expenses in the first quarter of 2008 consist primarily of stock based compensation charges for awards granted to licensee physicians in 2005. Such awards were fully vested as of March 31, 2008. We expect our future cost of services to be minimal with respect to our existing licensing agreements.

During the three and six months ended June 30, 2007, ICM was consolidated in our results of operations. Cost of services during this period includes costs associated with revenue-generating activities of this entity. The decrease in cost of services is the result of ICM's deconsolidation.

Stock-based compensation charges included in cost of services were $4,373 and $208,158 for the three and six months ended June 30, 2008 and $167,807 and $333,549 for the three and six months ended June 30, 2007, respectively.

Research and Development

Research and Development		2008		2007		Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	$	84,848	$	418,547	$	(333,699)	(79.7)%
Six Months Ended June 30,	$	133,783	$	523,645	$	(389,862)	(74.5)%

Research and development expenses decreased for the three and six months ended June 30, 2008 as compared with the three and six months ended June 30, 2007 due primarily to non-recurring investments made in 2007 to initiate collaborative research as well as lower stock-based compensation charges in 2008 due to the vesting of certain awards.

Research and development costs include research staff salaries, fees to universities for research collaborations, patent investigational expenditures, application filing fees, patent attorney costs, and other research and development costs. Factors that influence our amount of research and development costs include the number of patents to be pursued, the volume of clinical trials to be conducted, and the amount of medical discoveries or breakthroughs that merit further research and development.

The difference in our research and development costs between the three and six month periods ended June 30, 2008 and June 30, 2007, respectively, were not significantly attributable to ICM's deconsolidation.

Professional Fees

Professional Fees		2008		2007		Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	$	35,271	$	84,151	$	(48,880)	(58.1)%
Six Months Ended June 30,	$	107,658	$	174,336	$	(66,678)	(38.2)%

Professional fees include payments made to consultants and other professionals for a variety of outsourced services, including legal, accounting, tax, business development, business process design and execution and marketing.

Professional fees decreased for the three and six months ended June 30, 2008 compared with the three and six months ended June 30, 2007 partially due to decreased legal fees and the effects of the deconsolidation of ICM (which incurred $13,968 and $21,886 in profession fees for the three and six months ended June 30, 2007 respectively). Legal fees fluctuate depending on the amount of compliance, litigation and general corporate related activities that are being pursued. Professional fees also decreased as the result of decreased media, investor relations and internet consulting in 2008 as part of cost containment initiatives.

General and Administrative

General and Administrative		2008		2007		Change from Prior Year	Percent Change from Prior Year
Three Months Ended June 30,	$	295,576	$	702,230	$	(406,654)	(57.9)%
Six Months Ended June 30,	$	906,783	$	1,162,551	$	(255,768)	(22.0)%

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General and administrative expenses include stock based compensation, salaries, rent, utilities, general office expenses, insurance and other costs necessary to conduct business operations.

General and administrative expenses decreased in the three months ended June 30, 2008 as compared to June 30, 2007 due to the effects of the deconsolidation of ICM (which incurred $148,862 in general and administrative expenses for the three months ended June 30, 2007) and a non-recurring loss of $272,900 on a settlement of a contractual dispute with a vendor that occurred in 2007. General and administrative expenses also decreased for the six months ended June 30, 2008 as compared to June 30, 2007 due to the effects of the deconsolidation of ICM (which incurred $263,136 in general and administrative expenses for the six months ended June 30, 2007) and the effects of the vendor settlement in 2007, partially offset by increased stock based compensation in 2008. The stock based compensation expense included in general and administrative was $143,676 and $565,495 for the three and six months ended June 30, 2008 and $149,073 and $321,303 for the three and six months ended June 30, 2007 respectively.

We utilize stock-based compensation as a long-term incentive and as a mechanism for reducing our cash outlays to key employees, officers, directors and consultants. The amount of stock based compensation to be recognized is affected by the value of each award and their respective vesting periods. We utilize the Black-Scholes model for valuing stock option awards which is affected by changes in several variables, including volatility. For awards granted during 2006 and 2007 our volatility varied between 44 percent and 62 percent as compared to volatility of 118 percent in 2008. During periods prior to 2008, we utilized an average of the volatility of selected representative peer companies as we did not have sufficient trading history for our common stock. During the first quarter of 2008, we determined that we had a sufficient trading history to utilize the volatility of our common stock in our Black-Scholes computations.

Net Loss

Net Loss	**2008**	**2007**	**Change from Prior Year**	**Percent Change from Prior Year**
Three Months Ended June 30,	$ (263,782)	$ (1,109,398)	$ 845,616	(76.2)%
Six Months Ended June 30,	$ (832,475)	$ (1,648,595)	$ 816,120	(49.5)%

Our net loss decreased for the three and six months ended June 30, 2008 as compared to the three months ended June 30, 2007, primarily due to the effects of the deconsolidation of ICM and reduced operating expenses, partially offset by revenues associated with a new licensing agreement, each of which is described above.

Liquidity and Capital Resources

During the six months ended June 30, 2008, we incurred $6,793 in operating cash outflows and $16,374 of investing cash outflows, which were financed by existing cash on hand. At June 30, 2008, we had cash and cash equivalents totaling $156,284, working capital of $274,017, other amounts due from licensees of $711,501, liabilities of $248,348 and stockholders' equity of $1,007,588.

Sources and Uses of Cash

We require cash to fund our research and development activities, to build our operating infrastructure, to pay our personnel and management team and to finance continued growth.

We expect that the cash flows from our licensing arrangements, together with existing cash on hand and the repayment of outstanding balances, will permit us to finance our existing operating activities for the next twelve months. However, the operations of ICM are subject to certain degrees of uncertainty and could be negatively affected by the effects of competition and local government regulations. This could impair or restrict ICM's ability to make its required payments under the license agreement, which could adversely affect our cash flows. There can be no assurance that existing license agreements will provide sufficient cash flows to finance our operations. Additionally, we are currently pursuing the expansion of our biotech activities in the United States and to do so we will need to secure additional financing through future equity or debt offerings or both. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us.

The accompanying financial statements have been prepared assuming we will continue as a going concern. We have incurred losses and operational cash outflows since inception, and have a limited history of revenues. Our future is dependent upon future profitable operations and the development of new business opportunities. We currently intend to raise additional funds via a combination of equity and/or debt offerings in order to finance our operations until we achieve profitability.

These conditions raise substantial doubt about our ability to continue as a going concern. These financial statements do not include any adjustments that might arise from this uncertainty.

Analysis of Cash Flows

Net cash used in operating activities was $6,793 during the six months ended June 30, 2008. These cash flows consisted of payments for legal, professional and consulting expenses, officer salaries, rent and other expenditures necessary to develop our business infrastructure, and expand our research and development portfolio and collaborative efforts, which were almost entirely offset by cash collections from license agreements. Net cash used in investing activities was $16,374 for the six months ended June 30, 2008, consisting of minor payments made to vendors on behalf of ICM. Prior to our deconsolidation of ICM, many vendors of ICM were paid directly by Medistem and we have transitioned all but a few of these relationships directly to the licensee. There were no financing activities during the three months ended June 30, 2008.

Net cash used in operating activities was $266,485 during the six months ended June 30, 2007. These cash flows consisted of payments for legal, professional and consulting expenses, medical supplies, rent and other expenditures necessary to develop our business infrastructure. Net cash used in investing activities was $167,255 for the six months ended June 30, 2007, consisting of net expenditures for medical and laboratory equipment, leasehold improvements and other fixed assets. There were no financing activities during the six months ended June 30, 2007.

We do not currently have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No 160, Noncontrolling Interests in Consolidated Financial Statements; an amendment of ARB No. 51 (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The effect of adopting SFAS 160 is not expected to have a material impact on our financial statements.

Inflation and Seasonality

We do not believe that our operations are significantly impacted by inflation. Our business is not seasonal in nature.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2008, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required under Statement of Financial Accounting Standards No. 107. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in the periods set forth in this report) or commodity price risk.

Item 4T. Controls and Procedures.

In accordance with Rule 13a-15(b) or Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q, Medistem's management evaluated, with the participation of Medistem's principal executive officer and principal financial officer, the effectiveness of the design and operation of Medistem's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). Based on their evaluation of these disclosure controls and procedures, Medistem's chief executive officer and chief financial officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

There has been no change in Medistem's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, Medistem's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless how remote.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

As of the date of this report, Medistem is not currently involved in any legal proceedings.

Item 1A. Risk Factors.

There have been no changes to the risk factors identified in our annual report on Form 10-K for the year ended December 31, 2007 and they are hereby incorporated by reference herein.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	By Reference from Document
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934	*
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934	*
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

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Filed herewith

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SIGNATURES

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

MEDISTEM INC.
(Registrant)

Signature	Title	Date
/s/ Thomas Ichim Thomas Ichim	Chief Executive Officer	August 13, 2008
/s/ Steven M. Rivers Steven M. Rivers	Chief Financial Officer	August 13, 2008