

GAMMACAN INTERNATIONAL INC  
Form 10-Q  
February 02, 2006

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

**FORM 10-QSB**

(Mark One)

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

**For the Quarterly Period Ended December 31, 2005**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 0-32835**

**GAMMACAN INTERNATIONAL, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**                      **33-0956433**  
(State or other jurisdiction of (IRS Employer Identification  
incorporation or organization)                      No.)

**11 Ben Gurion Street**  
**54100 Givat Shmuel, Israel**  
(Address of principal executive offices)

**972 3 5774475**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court. Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 28,453,732 shares issued and outstanding as of February 2, 2006.

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This Form 10-QSB includes a number of forward-looking statements that reflect management's current views with respect to future events and financial performance. Those statements include statements regarding the intent, belief or current expectations of Gammacan and members of its management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this report and in our other reports filed with the Securities and Exchange Commission. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. Gammacan believes that its assumptions are based upon reasonable data derived from and known about its business and operations and the business and operations of Gammacan. No assurances are made that actual results of operations or the results of GammaCan's future activities will not differ materially from its assumptions.

**ITEM 1. - FINANCIAL STATEMENTS**

**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)  
**INTERIM FINANCIAL STATEMENTS**  
AS OF DECEMBER 31, 2005

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**GAMMACAN INTERNATIONAL INC.**

(A Development Stage Company)

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(US \$, except share data)

	<b>December 31, 2005 (Unaudited)</b>	<b>September 30, 2005 (Audited)</b>
<b>A s s e t s</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,991,211	\$ 713,342
Prepaid expenses	52,661	11,619
Other	25,858	22,029
T o t a l current assets	2,069,730	746,990
<b>FUNDS IN RESPECT OF EMPLOYEE RIGHTS UPON RETIREMENT</b>		
	6,884	7,528
<b>PROPERTY AND EQUIPMENT, NET</b>	9,810	10,269
T o t a l assets	\$ 2,086,424	\$ 764,787
<u>Liabilities and stockholders' equity</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 307,010	\$ 159,379
Payroll and related accruals	40,094	14,655
T o t a l current liabilities	347,104	174,034
<b>LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT</b>	11,016	13,725
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$ 0.0001 par value (20,000,000 shares authorized; none issued and outstanding)		
Common stock, \$ 0.0001 par value (100,000,000 authorized shares ; 28,453,732 and 26,231,510 shares issued and outstanding as of December 31, 2005 and September 30, 2005, respectively)	2,845	2,622
Additional paid-in capital	2,945,198	1,767,601
Warrants	925,793	519,423
Deficit accumulated during the development stage	(2,145,532)	(1,712,618)
T o t a l stockholders' equity	1,728,304	577,028
T o t a l liabilities and stockholders' equity	\$ 2,086,424	\$ 764,787

**The accompanying notes are an integral part of the financial statements.**



**GAMMACAN INTERNATIONAL INC.**

(A Development Stage Company)

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(US \$, except share data)

	<b>Three months ended December 31,</b>		<b>Period from October 6, 1998* to December 31, 2005</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
<b>RESEARCH AND DEVELOPMENT COSTS</b>	\$ 225,161	\$ 51,366	\$ 938,081
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	212,775	192,510	1,238,416
<b>FINANCIAL INCOME</b>	(8,058)	(2,013)	(28,761)
<b>FINANCIAL EXPENSES</b>	3,036	871	10,171
	432,914	242,734	2,157,907
<b>MINORITY INTERESTS IN LOSSES OF A SUBSIDIARY</b>	-	-	(12,375)
<b>NET LOSS FOR THE PERIOD</b>	\$ (432,914)	\$ (242,734)	\$ (2,145,532)
<b>BASIC AND DILUTED LOSS PER 1000 COMMON SHARES</b>	\$ (16.13)	\$ (9.44)	
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN COMPUTING BASIC AND DILUTED LOSS PER COMMON SHARE</b>	26,847,065	25,710,510	

\* Incorporation date, see note 1a.

**The accompanying notes are an integral part of the financial statements.**

## GAMMACAN INTERNATIONAL INC. AND SUBSIDIARY

(A Development Stage Company)

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(US \$, except share data)

	Common Stock	Common Stock Amount	Warrants	Additional paid-in capital	Deficit accumulated during development stage	Total
<b>Beginning balance</b>	- \$	- \$	- \$	- \$	- \$	-
Stock issued for cash on October 6, 1998	1,650,000	165		(155)		10
Stock issued for cash on October 9, 1998	2,722,500	272		(107)		165
Stock issued for cash on October 10, 1998	198,000	20		100		120
Stock issued for services on December 1, 1998	9,900,000	990		2,010		3,000
Stock issued for cash on April 7, 1999	561,000	56		284		340
Net loss					(3,444)	(3,444)
<b>Balance at September 30, 1999</b>	15,031,500	1,503		2,132	(3,444)	191
Stock issued for cash on September 30, 2000	41,250,000	4,125		875		5,000
<b>Balance at September 30, 2000</b>	56,281,500	5,628		3,007	(3,444)	5,191
Net loss					(3,108)	(3,108)
<b>Balance at September 30, 2001</b>	56,281,500	5,628		3,007	(6,552)	2,083
Net loss					(4,231)	(4,231)
<b>Balance at September 30, 2002</b>	56,281,500	5,628		3,007	(10,783)	(2,148)
Contributed capital				7,025		7,025
Net loss					(4,857)	(4,857)
<b>Balance at September 30, 2003</b>	56,281,500	5,628		10,032	(15,640)	20
Cancellation of shares at June 8, 2004	(32,284,988)	(3,228)		3,228		
Stock based compensation				62,600		62,600
Common stock and warrants issued for cash on August 13, 2004	1,224,998	122	139,494	779,134		918,750



Gain on issuance of subsidiary						
Stock on August 17, 2004						
to						
third party				86,625		86,625
Net loss					(498,446)	(498,446)
<b>Balance at September 30, 2004</b>	25,221,510	2,522	139,494	941,619	(514,086)	569,549
Common stock and warrants						
issued for cash on November 11, 2004	978,000	97	367,892	766,630		1,134,619
Common stock and warrants						
issued for cash on January 25, 2005	32,000	3	12,037	24,760		36,800
Issuance of warrants to Consultants'				34,592		34,592
Net loss					(1,198,532)	(1,198,532)
<b>Balance at September 30, 2005</b>	26,231,510 \$	2,622 \$	519,423 \$	1,767,601 \$	(1,712,618)\$	577,028
Common stock and warrants						
issued for cash on October 31, 2005	666,666	67	82,784	367,149		450,000
Common stock and warrants						
issued for cash on December 20, 2005	1,555,556	156	323,586	776,258		1,100,000
Benefit component in employees and consultants stock option plan				34,190		34,190
Net loss					(432,914)	(432,914)
<b>Balance at December 31, 2005 (unaudited)</b>	28,453,732 \$	2,845 \$	925,793 \$	2,945,198 \$	(2,145,532)\$	1,728,304

**The accompanying notes are an integral part of the financial statements.**

**GAMMACAN INTERNATIONAL INC. AND SUBSIDIARY**

(A Development Stage Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(US \$)

	<b>Three months ended December 31,</b>		<b>Period from October 6, 1998* to December 31, 2005</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (432,914)	\$ (242,734)	\$ (2,145,532)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Income and expenses not involving cash flows:			
Depreciation	843	285	3,436
Common stock issued for services	-	-	3,000
Minority interests in losses of a subsidiary	-	-	(12,375)
Write off of in process research and development	-	-	100,000
Benefit component in employees and consultants stock option plan	34,190	-	131,382
Changes in operating assets and liabilities:			
Increase in prepaid expenses	(41,042)	(41,632)	(52,661)
Increase in other current assets	(3,829)	(8,089)	(25,858)
Increase (decrease) in current liabilities	173,070	(11,540)	346,104
Increase (decrease) in liability for employee rights upon retirement	(2,709)	-	11,016
Net cash used in operating activities	(272,391)	(303,710)	(1,641,488)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
-			
funds in respect of employee rights upon retirement	644		(12,218)
Purchase of property and equipment	(384)	(7,512)	(7,912)
Net cash provided by (used) in investment activities	260	(7,512)	(20,130)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Contribution to additional paid in capital			12,319
Issuance of common stock and warrants	1,550,000	1,134,619	3,640,510
Net cash provided by financing activities	1,550,000	1,134,619	3,652,829
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,277,869</b>	<b>823,397</b>	<b>1,991,211</b>

<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	713,342	705,868		
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 1,991,211	\$ 1,529,265	\$ 1,991,211	

\* Incorporation date, see note 1a.

**The accompanying notes are an integral part of the financial statements.**

**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:**

**a. General:**

GammaCan International Inc. (A Development Stage Company; "the Company") was incorporated on October 6, 1998, under the laws of the State of Delaware, under the name of San Jose International, Inc. The Company has no significant revenues and no material operations and in accordance with Statement of financial Accounting Standard ("SFAS") No. 7 "Accounting and Reporting by Development Stage enterprises", the Company is considered a development stage company.

On August 19, 2004, the name of the company was changed from "San Jose International, Inc." into "GammaCan International, Inc."

At this point in the development stage, the company's focus is to demonstrate efficacy of IVIg cancer immunotherapy in human clinical trials. In July 2005, the company commenced Phase 2 clinical trials in humans to demonstrate clinical efficacy of IVIg immunotherapy in three major cancers: colon, prostate and melanoma. These Phase 2 clinical trials are being conducted at three medical centers in Israel and preliminary results are anticipated during the first half of 2006. The Phase 2 clinical trial is due to be completed by October 2006.

The financial statements have been prepared assuming the Company will continue as a going concern. See note 2.

**b. Accounting principles**

The accompanying unaudited financial statements of the Company and the subsidiary GammaCan Ltd. ("the Subsidiary") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended December 31, 2005, are not necessarily indicative of the results that may be expected for the year ended September 30, 2006. For further information, refer to the financial statements and footnotes thereto included in the consolidated annual report on Form 10-KSB for the year ended September 30, 2005.

**c. Use of estimates in the preparation of financial statements**

The preparation of the financial statements in conformity with U.S. GAAP 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 financial statement date and the reported expenses during the reporting periods. Actual results could differ from those estimates.



**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (continued):

**d. Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiary GammaCan Ltd. All material intercompany transactions and balances have been eliminated in consolidation.

**e. Cash equivalents**

The company considers all short term, highly liquid investments, which include short-term deposits with original maturities of three months or less from the date of purchase that are not restricted as to withdrawal or use and are readily convertible to known amounts of cash, to be cash equivalents.

**f. Loss per share**

Basic and diluted net losses per common share are presented in accordance with FAS No. 128 "Earning per share" ("FAS128"), for all periods presented. Outstanding stock options and warrants have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for all periods presented. The total number of common stocks options and warrants excluded from the calculations of diluted net loss was 3,967,775 for the three months ended December 31, 2005 (3,652,998 for the three months ended December 31, 2004).

**g. Stock based compensation**

The Company accounts for employee stock based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. In accordance with FAS 123 - "Accounting for Stock-Based Compensation" ("FAS 123"), the Company discloses pro forma data assuming the Company had accounted for employee stock option grants using the fair value-based method defined in FAS 123.

As to services from consultants, the Company applies EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services".

**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (continued):

The following table illustrates the pro - forma effect on net loss and loss per common share assuming the Company had applied the fair value recognition provisions of FAS 123 to its stock-based employee compensation:

	<b>Three months ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
Net loss as reported	\$ (432,914)	\$ (242,734)
Add: pro forma stock based employee compensation expense determined under fair value method for all awards, net of related tax effects	(58,361)	(231,504)
Recognize the reversal of the pro forma stock based employee compensation expense determined under fair value method due to forfeiture of awards granted to employees	79,676	-
Pro forma net loss	\$ (411,599)	\$ (474,238)
Net loss per 1000 common shares:		
Basic and diluted loss per 1000 shares - as reported	\$ (16.13)	\$ (9.44)
Basic and diluted loss per 1000 shares - pro forma	\$ (15.33)	\$ (18.45)

**h. Reclassifications**

Certain figures in respect of prior years have been reclassified to conform to the current year presentation.

**NOTE 2 - GOING CONCERN**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has net losses for the period from inception (October 6, 1998) through December 31, 2005 of \$2,145,532. The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required and ultimately to attain profitability. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**NOTE 3 - STOCK TRANSACTIONS:**

a. On October 31, 2005, the company entered into subscription agreement for the sale of 666,666 units at a purchase price of \$0.75 per unit for a total consideration of \$500,000. Each unit comprising one share of the Company's common stock and one common share purchase warrant exercisable for three years. Every 2 warrants can be exercisable to one Share at a price of \$1.00 per Share.

In connection with the subscription agreement the company paid \$50,000 cash fee to a third party which assisted in securing the agreement, as well as issued 66,666 units, each comprising of one common share purchase warrant exercisable for three years. Every warrant can be exercisable to one Share at a price of \$1.50 per Share.



**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 3 - STOCK TRANSACTIONS** (continued):

The value allocated to all warrants estimated by using the Black Scholes option-pricing model is \$82,784. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 80%; risk-free interest rates of 4.4%; and expected lives of 3 years.

**b.** On October 6, 2005, 350,000 options were granted under the Stock Option Plan. The exercise price has been determined at \$0.93 per share which was equivalent to 90% of the traded market price on the date of grant. The options may be exercised after vesting and only in accordance with the following:

1. 30,000 options - On the first anniversary commencing the grant date.
2. 320,000 options - On the last day of each of the 36 months following the first anniversary of the grant date, the options shall vest in equal monthly installments

The fair value of the above options on the date of grant estimated by using Black Scholes option-pricing model is \$283,262. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 80%; risk-free interest rates of 4.5%; and expected lives of 7.59 years.

**c.** On October 20, 2005, 30,000 options were granted under the Stock Option Plan. The exercise price has been determined at \$1.35 per share which was equivalent to the traded market price on the date of grant

The options may be exercised after vesting and only in accordance with the following:

1. 25% of the options - On the first anniversary commencing the grant date
2. 75% of the options - On the last day of each of the 36 months following the first anniversary of the grant date, the options shall vest in equal monthly installments

The fair value of the above options on the date of grant estimated by using Black Scholes option-pricing model is \$32,637. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 85%; risk-free interest rates of 4.5%; and expected lives of 7.85 years.

**d.** On December 20, 2005, the company entered into subscription agreement for the sale of 1,333,334 units at a purchase price of \$0.75 per unit for a total consideration of \$1,000,000. Each unit comprising one share of the Company's common stock and one common share purchase warrant exercisable for three years. Every warrant can be exercisable to one Share at a price of \$1.20 per Share.

In connection with the subscription agreement the company paid \$100,000 cash fee to third parties who assisted in securing the agreement, as well as issued 133,332 units, each comprising of one common share purchase warrant exercisable for three years. 66,666 warrants can be exercisable to 66,666 Share at a price of \$1.25 per Share, and 66,666 warrants can be exercisable to 66,666 Share at a price of \$1.50 per Share.



**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 3 - STOCK TRANSACTIONS** (continued):

The value allocated to all warrants estimated by using the Black Scholes option-pricing model is \$294,443. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 81%; risk-free interest rates of 4.4%; and expected lives of 3 years.

- e. On December 20, 2005, the company entered into subscription agreement for the sale of 222,222 units at a purchase price of \$0.90 per unit for a total consideration of \$200,000. Each unit comprising one share of the Company's common stock and one common share purchase warrant exercisable for three years. Every 2 warrants can be exercisable to one Share at a price of \$1.15 per Share.

The value allocated to all warrants estimated by using the Black Scholes option-pricing model is \$29,143. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 81%; risk-free interest rates of 4.4%; and expected lives of 3 years.

- f. On December 21, 2005, 250,000 options were granted under the Stock Option Plan. The exercise price has been determined at \$1.34 per share which was equivalent to the traded market price on the date of grant. As to the exercise terms of the options - see note 3c.

The fair Value of the above mentioned options on the date of the grant estimated by using the Black Scholes option-pricing model is \$269,449. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 85%; risk-free interest rates of 4.5%; and expected lives of 7.85 years.

**NOTE 4 - SUBSEQUENT EVENTS**

On January 12, 2006, 50,000 options were granted under the Stock Option Plan. The exercise price has been determined at \$1.10 per share which was equivalent to the traded market price on the date of grant. As to the exercise terms of the options - see note 3c.

The fair Value of the above mentioned options on the date of the grant estimated by using the Black Scholes option-pricing model is \$44,165. The value was based on the following assumptions: dividend yield of 0%; expected volatility of 85%; risk-free interest rates of 4.5%; and expected lives of 7.85 years.

**GAMMACAN INTERNATIONAL INC.**  
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

As used in this current report, the terms "we", "us", "our", and "Gammacan" mean Gammacan International, Inc. and our subsidiary, Gammacan, Ltd., unless otherwise indicated.

All dollar amounts refer to US dollars unless otherwise indicated.

We currently have no revenue from operations, we are in a start-up phase with our existing assets and we have no significant assets, tangible or intangible. There can be no assurance that we will generate revenues in the future, or that we will be able to operate profitably in the future, if at all. We have incurred net losses in each fiscal year since inception of our operations.

Our initial focus over the next several years is to demonstrate efficacy of IVIG cancer immunotherapy in human clinical trials. Efficacy is the ability of a drug or other treatment to produce the desired result when taken by its intended users. If ultimately proven to be successful, and there can be no assurance that it will be, we could be well-positioned to enter a licensing agreement with a major pharmaceutical partner for commercial market development and sales.

Since July 2005, we have been conducting a Phase 2 clinical trial in humans to demonstrate clinical efficacy of IVIG immunotherapy in three major cancers: colon, prostate and melanoma. To date, 28 patients have been enrolled, out of which 24 have actually received the IVIG treatment. This phase 2 clinical trial is being conducted at three medical centers in Israel and preliminary results will likely be available during the first half of 2006. The trial is due to be completed by October 2006, but we will probably continue to monitor patients for a number of years after the trial in order to collect additional evidence of efficacy and potential benefits or adverse effects of the IVIG treatment. If successful or promising, and at this preliminary stage there is no assurance they will be, results of these clinical trials will be used to enter into discussions with a major pharmaceutical partner and plasma based product manufacturers to work with us to potentially commercialize the IVIG products. This commercialization will include pivotal, Phase 3 clinical trials in accordance with regulatory requirements. Such trials may be long-term trials and may require substantial financial resources that we do not presently possess.

We expect that it will take a number of years to receive final approval and registration of an IVIg preparation for use as an anti-cancer reagent. However, the company's strategy is to collaborate with a suitable IVIg manufacturer and license them the rights to use IVIg as an anti-cancer agent, wherefore the company's expected revenue stream is not entirely dependent upon the registration of the IVIg products.

We are also contemplating to conduct additional clinical trials to test new formulations of IVIG and to test IVIG immunotherapies for different cancers at different stages of disease progression with varying dosages and routes of administration. Our goal is to partner with a pharmaceutical company to conduct these further Phase 2 and Phase 3 trials, in order to attain broad-based regulatory approval.

**Long Term Business Strategy**

As noted previously, if IVIG shows significant promise thorough clinical trials, we plan to ultimately seek a strategic commercial partner, or partners, with extensive experience in commercialization and marketing of cancer drugs and or therapeutic proteins. It is envisaged that the partner, or partners, would be responsible for ensuring regulatory approvals and registrations in a timely manner and for the penetration of the IVIG immunotherapies to the market. This planned strategic partnership, or partnerships, could provide a marketing and sales infrastructure for our products as well as financial and operational support for global trials and other FDA requirements concerning future clinical development. Our future strategic partner, or partners, could also provide capital and expertise that would enable the partnership to develop new formulations of IVIG cancer immunotherapy suitable for patients at different stages of disease progression as well as IVIg derivatives.

### **Other Research and Development Plans**

In addition to conducting early-stage clinical trials, we plan to conduct research to develop alternative delivery systems, to determine the optimal dosage for different patient groups and to investigate alternative sources of immunoglobulin other than human plasma. We plan to conduct research to isolate the fraction of IVIG, which is responsible for its anti-metastatic effects and to develop a potential synthetic version of IVIG. These formulations will be suitable for:

- Low-dose, preventative therapy for disease-free, high-risk individuals,
- Strong dose for use in conjunction with surgery and other cancer treatments, and
- Maintenance dose for use to prevent recurrence of cancer growth.
- Others

Our plan is to patent any successful inventions resulting from our further research activities.

### **Other Strategic Plans**

We are considering in-licensing and other means of obtaining additional lead molecules for our product portfolio. The aim of this is to create a well-balanced product portfolio including lead molecules in different stages of development and addressing different medical needs.

### **Critical accounting policies and estimates**

Management's discussion and analysis of the financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments. We base our estimates on various factors, including historical experience that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### **Going concern assumption**

The financial statements have been prepared assuming the Company will continue as a going concern. Through December 31, 2005, the Company has incurred losses in an aggregate amount of \$2,145,532. Such losses have resulted from the Company's activities as a development stage company. We estimate that the cash reserves available on December 31, 2005 will be sufficient to cover the planned expenses through September 30, 2006. The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required and ultimately to attain profitability.

### Valuation of options and warrants

We granted options to purchase common shares of our company to employees and consultants as well as issue warrants in connection with fund raising. The fair value of the options and warrants is estimated by using the Black Scholes option-pricing model, and is based on certain assumptions regarding the expected dividends, expected volatility, expected life of the options and warrant and the risk free interest rate.

### Results of Operations

Three months ended December 31, 2005 and 2004

The following table summarizes certain statement of operations data for the company for the three months period ended December 31, 2005 and 2004 (in US\$):

	Three months ended December 30,	
	2005	2004
Research and development costs	\$ 225,161	\$ 51,366
General and administrative expenses	212,775	102,510
Financial (income) expense, net	(5,022)	(1,142)
Net loss for the period	\$ (432,914)	\$ (242,734)

Research and development costs.

Research and development expenses are the costs incurred in the process of our pre-clinical trial and clinical trial.

During the three months ended December 31, 2005 and December 31, 2004 the research and development expenses included, among other, the clinical trial and pre-clinical trial expenses, the consultants compensation, costs related to the registered patents as well as salaries and related expenses.

During the three months ended December 31, 2005 the research and development expenses totaled \$225,161, compared to \$51,366 during the three months ended December 31, 2004. The increase in costs is due to the conducted Phase 2 trial whereas during the three months ended December 31, 2004 the costs were related to the pre-clinical activity.

General and administrative expenses

The general and administrative expense includes the salaries and related expenses of the company's management, consulting, legal and professional fees, traveling, business development costs as well as insurance expenses.

For the three months ending December 31, 2005 the General and administrative expense totaled \$212,775 compared to \$102,510 for the three months ended December 31, 2004. Costs incurred related to general and administrative in the three months ended December 31, 2005 reflect an increase in activities as well as increased number of employees as compared to the three months period ending December 31, 2004.

Financial income/expense, net

During the three months ending December 31, 2005 and December 31, 2004 the company generated interest income on available cash and cash equivalents balance.

**Liquidity and Capital Recourses**

**Financing activities**

Through December 31, 2005, the Company has incurred losses in an aggregate amount of \$2,145,532. We have financed our operation from private placement of common stock. Through December 31, 2005 we raised a total of \$3,652,829, net of transaction cost, through private placements and we anticipate that additional financing will be through similar sources. Our financing activities for the three months period ending December 31, 2005 include the following.

On October 31, 2005, the company entered into subscription agreement for the sale of 666,666 units at a purchase price of \$0.75 per unit for a total consideration of \$500,000.

On December 20, 2005, the company entered into subscription agreement for the sale of 1,333,334 units at a purchase price of \$0.75 per unit for a total consideration of \$1,000,000.

On December 20, 2005, the company entered into subscription agreement for the sale of 222,222 units at a purchase price of \$0.90 per unit for a total consideration of \$200,000.

**Employee's stock options plan**

On October 6, 2005 we granted options to purchase up to 350,000 common shares of our company at an exercise price of \$0.93 to Mr. Chaime Orlev.

On October 20, 2005 we granted options to purchase up to 30,000 common shares of our company at an exercise price of \$1.35 to an employee.

On December 21, 2005 we granted options to purchase up to 250,000 common shares of our company at an exercise price of \$1.34 to an employee.

On January 12, 2006 we granted options to purchase up to 50,000 common shares of our company at an exercise price of \$1.10 to an employee.

**Summary of financing activities**

Through December 31, 2005 we raised approximately \$3.6 Million through private placements of our securities. As of the December 31, 2005 the cash and cash equivalents totaled \$1,991,211. We anticipate that these reserves will be sufficient to fund operation through September 30, 2006. Continuation of our current operations after utilizing the mentioned reserves during the year ending September 30, 2006, is dependent upon obtaining financial support from investors until profitable results are achieved.



**Planned Expenditures**

The estimate expenses referenced herein are in accordance with the business plan. As the technology is still in the development stage, it can be expected that there will be changes in some budgetary items. Our planned expenditures for the next 12 months include:

<b>Category</b>	<b>Amount</b>
Research & Development	\$ 1,135,000
Marketing and Business Development	\$ 170,000
General & Administrative Expenses	\$ 1,026,000
<b>Total</b>	<b>\$ 2,331,000</b>

We are considering an additional clinical trial to demonstrate clinical efficacy of IVIG, sourced from a specific population, of Melanoma patients. We will begin initial process of this trial during 2006. The decision to proceed past the initial process will be based on several major factors, one of which is the ability of our company to attract sufficient financing on acceptable terms. If we decide to continue this additional trial past the initial process, we anticipate that our related clinical trial costs over the next 12 months would increase by approximately \$1,680,000.

**Related party transactions**

Mr. Yair Aloni, a director of our company, and Professor Yehuda Shoenfeld, M.D., the Chief Scientist of our subsidiary, Gammacan, Ltd., are authorized signatories of ARP Biomed Ltd. for the Intellectual Property Purchase and Sale Agreement we entered into with ARP Biomed Ltd. on June 11, 2004. Mr. Aloni is the Chief Executive Officer of ARP.

On June 6, 2005, the Company and Gammacan, Ltd. appointed Vered Caplan as acting Chief Executive Officer of both companies, effective July 2, 2005. Vered Caplan will devote approximately 70% of her business time to the affairs of Gammacan, Ltd. and the Company. Vered Caplan shall receive a salary of \$6,475 per month.

***Forward Looking Statements***

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect management's current views with respect to future events and financial performance. Those statements include statements regarding the intent, belief or current expectations of Gammacan and members of its management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this report and in our other reports filed with the Securities and Exchange Commission. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. Gammacan believes that its assumptions are based upon reasonable data derived from and known about its business and operations and the business and operations of Gammacan. No assurances are made that actual results of operations or the results of GammaCan's future activities will not differ materially from its assumptions.

### **ITEM 3. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures. As of December 31, 2005, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(d) and 15d-15(d) under the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934.

Changes in internal controls. There were no changes in the Company's internal controls over financial reporting, that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting

## **PART II**

### **ITEM 1 LEGAL PROCEEDINGS**

From time to time the Company is subject to litigation incidental to its business. Such claims, if successful, could exceed applicable insurance coverage. The Company is not currently a party to any material legal proceedings.

### **ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On October 31, 2005 the company entered into subscription agreements for the sale of 666,666 units to an offshore investor at a purchase price of \$0.75 per unit for a total consideration of \$500,000. Each unit comprising one share of the Company's common stock and one common share purchase warrant exercisable for three years for ½ (half) a share at a price of \$1.00 per Share.

On December 20, 2005 the company entered into a subscription agreement for the sale of 1,333,334 units to an accredited investor at a purchase price of \$0.75 per unit for a total consideration of \$1,000,000. Each unit comprising one share of the Company's common stock and one common share purchase warrant exercisable for three years for one share at a price of \$1.20 per share.

On December 20, 2005 the company entered into a subscription agreement for the sale of 222,222 units to an accredited investor at a purchase price of \$0.90 per unit for a total consideration of \$200,000. each unit comprising one share of the Company's common stock and one common share purchase warrant exercisable for three years for ½ (half) a share at a price of \$1.15 per share.

For each sale of these units we relied on either the exemption from registration provided for accredited investors pursuant to Rule 506 of Regulation D, or Regulation S promulgated under the Securities Act of 1933, as amended.

### **ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

### **ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

### **ITEM 5 OTHER INFORMATION**

Not applicable.

**ITEM 6 EXHIBITS**

31.1 - Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 - Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

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

**GAMMACAN INTERNATIONAL, INC.**

February 2, 2006

By: /s/ CHAIME ORLEV  
Chaime Orlev,  
Chief Financial Officer