

BRAINSTORM CELL THERAPEUTICS INC

Form 10-Q

May 13, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

☐ 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 333-61610

BRAINSTORM CELL THERAPEUTICS INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-8133057  
(I.R.S. Employer  
Identification No.)

605 Third Avenue, 34th Floor  
New York, NY 10158  
(Address of principal executive offices)

(212) 557-7200  
(Registrant's telephone number, including area code)

Not Applicable  
(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 ☐

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

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

Edgar Filing: BRAINSTORM CELL THERAPEUTICS INC - Form 10-Q

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

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

Yes ☐ No ☒

As of May 9, 2011, the number of shares outstanding of the registrant's common stock, \$0.00005 par value per share, was 120,459,641.

---

## TABLE OF CONTENTS

	Page Number
<b>PART I</b>	
Item 1. Financial Statements	2
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	35
<b>PART II</b>	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	36
Item 5. Other Information	36
Item 6. Exhibits	36

---

PART I: FINANCIAL INFORMATION

SPECIAL NOTE

Unless otherwise specified in this quarterly report on Form 10-Q, all references to currency, monetary values and dollars set forth herein shall mean United States (U.S.) dollars.

Item 1. Financial Statements.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2011

UNAUDITED

U.S. DOLLARS IN THOUSANDS

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2011

UNAUDITED

U.S. DOLLARS IN THOUSANDS

INDEX

	Page
Consolidated Balance Sheets	4
Consolidated Statements of Operations	5
Statements of Changes in Stockholders' Equity (Deficiency)	6 – 12
Consolidated Statements of Cash Flows	13
Notes to Consolidated Financial Statements	14 - 29

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

(Except share data)

	March 31, 2011 Unaudited	December 31, 2010 Audited
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$3,664	\$ 93
Accounts other receivable and prepaid expenses	221	486
Total current assets	3,885	579
Long-Term Investments:		
Prepaid expenses	-	1
Severance pay fund	100	90
Total long-term investments	100	91
Property and Equipment, Net	418	419
Total assets	\$4,403	\$ 1,089
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
Current Liabilities:		
Trade payables	\$401	\$ 307
Other accounts payable and accrued expenses	1,209	979
Short-term convertible note	-	137
Total current liabilities	1,610	1,423
Accrued Severance Pay	127	125
Total liabilities	1,737	1,548
Commitments And Contingencies Stockholders' Equity (Deficiency):		
Stock capital: (Note 8)	6	5
Common stock of \$0.00005 par value - Authorized: 800,000,000 shares at March 31, 2011 and December 31, 2010; Issued and outstanding: 121,034,291 and 95,832,978 shares at March 31, 2011 and December 31, 2010, respectively.		
Additional paid-in-capital	43,525	39,696
Deficit accumulated during the development stage	(40,865 )	(40,160 )
Total stockholders' equity (deficiency)	2,666	(459 )
Total liabilities and stockholders' equity	\$4,403	\$ 1,089

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands  
(Except share data)

	Three months ended March 31, 2011                      2010 Unaudited		Period from September 22, 2000 (inception date) through March 31, 2011 Unaudited
Operating costs and expenses:			
Research and development, net	\$270	\$239	\$ 23,000
General and administrative	258	370	15,056
Total operating costs and expenses	528	609	38,056
Financial income expenses, net	177	6	2,573
Operating loss	705	615	40,629
Taxes on income	-	-	72
Loss from continuing operations	705	615	40,701
Net loss from discontinued operations	-	-	164
Net loss	705	615	40,865
Basic and diluted net loss per share from continuing operations	\$0.01	\$0.01	
Weighted average number of shares outstanding used in computing basic and diluted net loss per share	108,895,199	81,560,155	

The accompanying notes are an integral part of the consolidated financial statements



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(except share data)

	Common stock Number	Common stock Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of September 22, 2000 (date of inception)	-	\$-	\$-	\$ -	\$ -	\$ -
Stock issued on September 22, 2000 for cash at \$0.00188 per share	8,500,000	1	16	-	-	17
Stock issued on March 31, 2001 for cash at \$0.0375 per share	1,600,000	* -	60	-	-	60
Contribution of capital	-	-	8	-	-	8
Net loss	-	-	-	-	(17 )	(17 )
Balance as of March 31, 2001	10,100,000	1	84	-	(17 )	68
Contribution of capital	-	-	11	-	-	11
Net loss	-	-	-	-	(26 )	(26 )
Balance as of March 31, 2002	10,100,000	1	95	-	(43 )	53
Contribution of capital	-	-	15	-	-	15
Net loss	-	-	-	-	(47 )	(47 )
Balance as of March 31, 2003	10,100,000	1	110	-	(90 )	21
2-for-1 stock split	10,100,000	* -	-	-	-	-
Stock issued on August 31, 2003 to purchase mineral option at \$0.065 per share	100,000	* -	6	-	-	6
Cancellation of shares granted to Company's President	(10,062,000)	* -	* -	-	-	-
Contribution of capital	-	* -	15	-	-	15
Net loss	-	-	-	-	(73 )	(73 )
Balance as of March 31, 2004	10,238,000	\$1	\$131	\$ -	\$ (163 )	\$ (31 )

\* Represents an amount less than \$1.

The accompanying notes are an integral part of the consolidated financial statements



**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**  
(A development stage company)

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)**

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of March 31, 2004	10,238,000	\$ 1	\$ 131	\$ -	\$ (163 )	\$ (31 )
Stock issued on June 24, 2004 for private placement at \$0.01 per share, net of \$25,000 issuance expenses	8,510,000	* -	60	-	-	60
Contribution capital	-	-	7	-	-	7
Stock issued in 2004 for private placement at \$0.75 per unit	1,894,808	* -	1,418	-	-	1,418
Cancellation of shares granted to service providers	(1,800,000 )	* -	-	-	-	-
Deferred stock-based compensation related to options granted to employees	-	-	5,979	(5,979 )	-	-
Amortization of deferred stock-based compensation related to shares and options granted to employees	-	-	-	584	-	584
Compensation related to shares and options granted to service providers	2,025,000	* -	17,506	-	-	17,506
Net loss	-	-	-	-	(18,840 )	(18,840 )
Balance as of March 31, 2005	20,867,808	\$ 1	\$ 25,101	\$ (5,395 )	\$ (19,003 )	\$ 704

\* Represents an amount less than \$1.

The accompanying notes are an integral part of the consolidated financial statements

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(except share data)

	Common stock		Additional	Deferred	Deficit	Total
	Number	Amount	paid-in	Stock - based	accumulated	stockholders'
			capital	compensation	during the	equity
					development	(deficiency)
					stage	
Balance as of March 31, 2005	20,867,808	\$ 1	\$ 25,101	\$ (5,395 )	\$ (19,003 )	\$ 704
Stock issued on May 12, 2005 for private placement at \$0.8 per share	186,875	* -	149	-	-	149
Stock issued on July 27, 2005 for private placement at \$0.6 per share	165,000	* -	99	-	-	99
Stock issued on September 30, 2005 for private placement at \$0.8 per share	312,500	* -	225	-	-	225
Stock issued on December 7, 2005 for private placement at \$0.8 per share	187,500	* -	135	-	-	135
Forfeiture of options granted to employees	-	-	(3,363 )	3,363	-	-
Deferred stock-based compensation related to shares and options granted to directors and employees	200,000	* -	486	(486 )	-	-
Amortization of deferred stock-based compensation related to options and shares granted to employees and directors	-	-	51	1,123	-	1,174
Stock-based compensation related to options and shares granted to service providers	934,904	* -	662	-	-	662
Reclassification due to application of ASC 815-40-25 (formerly EITF 00-19)	-	-	(7,906 )			(7,906 )
Beneficial conversion feature related to a convertible bridge loan	-	-	164	-	-	164
Net loss	-	-	-	-	(3,317 )	(3,317 )
Balance as of March 31, 2006	22,854,587	\$ 1	\$ 15,803	\$ (1,395 )	\$ (22,320 )	\$ (7,911 )
	-	-	(1,395 )	1,395	-	-

Elimination of deferred stock compensation due to implementation of ASC 718-10 (formerly SFAS 123(R))						
Stock-based compensation related to shares and options granted to directors and employees	200,000	* -	1,168	-	-	1,168
Reclassification due to application of ASC 815-40-25 (formerly EITF 00-19)	-	-	7,191	-	-	7,191
Stock-based compensation related to options and shares granted to service providers	1,147,225	-	453	-	-	453
Warrants issued to convertible note holder	-	-	11	-	-	11
Warrants issued to loan holder	-	-	110	-	-	110
Beneficial conversion feature related to convertible bridge loans	-	-	1,086	-	-	1,086
Net loss	-	-	-	-	(3,924 )	(3,924 )
Balance as of December 31, 2006	24,201,812	\$ 1	\$ 24,427	\$ -	\$ (26,244 )	\$ (1,816 )

\* Represents an amount less than \$1.

The accompanying notes are an integral part of the consolidated financial statements

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

	Common stock Number	Capital	Additional paid-in compensation	Deferred Stock - based stage	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of December 31, 2006	24,201,812	\$1	\$ 24,427	\$ -	\$ (26,244 )	\$ (1,816 )
Stock-based compensation related to options and shares granted to service providers	544,095		1,446	-	-	1,446
Warrants issued to convertible note holder	-	-	109	-	-	109
Stock-based compensation related to shares and options granted to directors and employees	200,000	* -	1,232	-	-	1,232
Beneficial conversion feature related to convertible loans	-	-	407	-	-	407
Conversion of convertible loans	725,881	* -	224	-	-	224
Exercise of warrants	3,832,621	* -	214	-	-	214
Stock issued for private placement at \$0.1818 per unit, net of finder's fee	11,500,000	1	1,999	-	-	2,000
Net loss	-	-	-	-	(6,244 )	(6,244 )
Balance as of December 31, 2007	41,004,409	\$2	\$ 30,058	\$ -	\$ (32,488 )	\$ (2,428 )
Stock-based compensation related to options and stock granted to service providers	90,000	-	33	-	-	33
Stock-based compensation related to stock and options granted to directors and employees	-	-	731	-	-	731
Conversion of convertible loans	3,644,610	* -	1,276	-	-	1,276
Exercise of warrants	1,860,000	* -	-	-	-	-
Exercise of options	17,399	* -	3	-	-	3

Stock issued for private placement at \$0.1818 per unit, net of finder's fee	8,625,000	1	1,499	-	-	1,500
Subscription of shares for private placement at \$0.1818 per unit	-	-	281	-	-	281
Net loss	-	-	-	-	(3,472 )	(3,472 )
Balance as of December 31, 2008	55,241,418	\$3	\$ 33,881	\$ -	\$ (35,960 )	\$ (2,076 )

\* Represents an amount less than \$1.

The accompanying notes are an integral part of the consolidated financial statements

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of December 31, 2008	55,241,418	\$3	\$ 33,881	\$ -	\$ (35,960 )	\$ (2,076 )
Stock-based compensation related to options and stock granted to service providers	5,284,284	(* )	775	-	-	775
Stock-based compensation related to stock and options granted to directors and employees	-	-	409	-	-	409
Conversion of convertible loans	2,500,000	(* )	200	-	-	200
Exercise of warrants	3,366,783	(* )	-	-	-	-
Stock issued for amendment of private placement	9,916,667	1	-	-	-	1
Subscription of shares	-	-	729	-	-	729
Net loss	-	-	-	-	\$ (1,781 )	(1,781 )
Balance as of December 31, 2009	76,309,152	\$4	\$ 35,994	\$ -	\$ (37,741 )	\$ (1,743 )

\* Represents an amount less than \$1.

The accompanying notes are an integral part of the consolidated financial statements



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of December 31, 2009	76,309,152	\$4	\$35,994	-	\$ (37,741 )	\$ (1,743 )
Stock-based compensation related to options and stock granted to service providers	443,333	* -	96	-	-	96
Stock-based compensation related to stock and options granted to directors and employees	466,667	* -	388	-	-	388
Stock issued for amendment of private placement	7,250,000	1	1,750	-	-	1,751
Conversion of convertible note	402,385	* -	135	-	-	135
Conversion of convertible loans	1,016,109	* -	189	-	-	189
Issuance of shares	2,475,000		400			400
Exercise of options	1,540,885	* -	77	-	-	77
Exercise of warrants	3,929,446	* -	11	-	-	11
Subscription of shares for private placement at \$0.12 per unit			455	-	-	455
Conversion of trade payable to stock			201			201
Issuance of shares on account of previously subscribed shares	2,000,001	* -	-	-	-	-
Net loss	-	-	-	-	(2,419 )	(2,419 )
Balance as of December 31, 2010	95,832,978	\$5	\$39,696	\$ -	\$ (40,160 )	\$ (459 )

\* Represents an amount less than \$1.

The accompanying notes are an integral part of the consolidated financial statements

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of December 31, 2010	95,832,978	\$5	\$39,696	\$ -	\$ (40,160 )	\$ (459 )
Stock-based compensation related to options and stock granted to service providers	-	-	(20 )	-	-	(20 )
Stock-based compensation related to stock and options granted to directors and employees	-	-	27	-	-	27
Stock issued for private placement	833,333	-	250	-	-	250
Conversion of convertible note	445,617	-	137	-	-	137
Exercise of options , net	94,764	-	55	-	-	55
Stock issued for private placement	13,327,600	1	3,356	-	-	3,357
Issuance of shares on account of previously subscribed shares (See also Note 7B.1.f)	10,499,999	-	24	-	-	24
Net loss	-	-	-	-	(705 )	(705 )
Balance as of March 31, 2011	121,034,291	\$6	43,525	\$ -	\$ (40,865 )	\$ 2,666

\* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands  
(except share data)

	Three months ended March 31, 2011      2010 Unaudited		Period from September 22, 2000 (inception date) through March 31, 2011 Unaudited
Cash flows from operating activities:			
Net loss	\$(705 )	\$(615 )	\$ (40,865 )
Less - loss for the period from discontinued operations	-	-	164
Adjustments to reconcile net loss to net cash used in operating activities:			698
Depreciation and amortization of deferred charges	38	42	188
Severance pay, net	(8 )	12	27
Accrued interest on loans	-	-	448
Amortization of discount on short-term loans	-	-	1,864
Change in fair value of options and warrants	-	-	(795 )
Expenses related to shares and options granted to service providers	(20 )	87	21,017
Stock-based compensation granted to employees	27	96	5,713
Decrease (increase) in other accounts receivable and prepaid expenses	265	(65 )	(221 )
Increase (decrease) in trade payables	94	(61 )	874
Increase (decrease) in other accounts payable and accrued expenses	254	(94 )	1,715
Erosion of restricted cash	-	-	(6 )
Net cash used in continuing operating activities	(55 )	(598 )	(9,179 )
Net cash used in discontinued operating activities	-	-	(23 )
Total net cash used in operating activities	(55 )	(598 )	(9,202 )
Cash flows from investing activities:			
Purchase of property and equipment	(37 )	(4 )	(1,122 )
Restricted cash	-	-	6
Investment in lease deposit	1	-	-
Net cash used in continuing investing activities	(36 )	(4 )	(1,116 )
Net cash used in discontinued investing activities	-	-	(16 )
Total net cash used in investing activities	(36 )	(4 )	(1,132 )
Cash flows from financing activities:			
Proceeds from issuance of Common stock, net	3,607	1,800	12,324
Proceeds from loans, notes and issuance of warrants, net	-	-	2,061
Credit from bank	-	(37 )	-
Proceeds from exercise of warrants and options	55	53	171
Repayment of short-term loans	-	-	(601 )
Net cash provided by continuing financing activities	3,662	1,816	13,955

Net cash provided by discontinued financing activities	-	-	43
Total net cash provided by financing activities	3,662	1,816	13,998
Increase in cash and cash equivalents	3,571	1,214	3,664
Cash and cash equivalents at the beginning of the period	93	1	-
Cash and cash equivalents at end of the period	3,664	1,215	3,664

Non-cash financing activities:

Conversion of convertible loan and convertible note to shares

Conversion of trade payable to Common Stock \$84	137	324
--	-----	-----

Conversion of other accounts payable to Common Stock	24
--	----

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE 1 - GENERAL

A. Brainstorm Cell Therapeutics Inc. (formerly: Golden Hand Resources Inc.) ("Company") was incorporated in the State of Washington on September 22, 2000.

B. On May 21, 2004, the former major stockholders of the Company entered into a purchase agreement with a group of private investors, who purchased from the former major stockholders 6,880,000 shares of the then issued and outstanding 10,238,000 shares of Common Stock.

C. On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), an Israeli corporation, to acquire a license certain stem cell technology (see Note 3). Subsequent to this agreement, the Company decided to focus on the development of novel cell therapies for neurodegenerative diseases, particularly Parkinson's disease, based on the acquired technology and research to be conducted and funded by the Company.

D. On November 22, 2004, the Company changed its name from Golden Hand Resources Inc. to Brainstorm Cell Therapeutics Inc. to better reflect its new line of business in the development of novel cell therapies for neurodegenerative diseases. The Company owns all operational property and equipment.

E. On October 25, 2004, the Company formed a wholly-owned subsidiary in Israel, Brainstorm Cell Therapeutics Ltd. ("BCT").

F. On September 17, 2006, the Company's changed its fiscal year-end from March 31 to December 31.

G. In December 2006, the Company changed its state of incorporation from Washington to Delaware.

H. Since inception, the Company has devoted substantially all of its efforts to research and development, recruiting management and technical staff, acquiring assets and raising capital. In addition, the Company has not generated revenues. Accordingly, the Company is considered to be in the development stage, as defined in Statement of Financial Accounting Standards No. 7, "Accounting and reporting by development Stage Enterprises" ASC 915-10 (formerly "SFAS" 7).

I. In October 2010, the Israeli Ministry of Health granted clearance for a Phase I/II clinical trial using the Company's autologous NurOwn™ stem cell therapy in patients with ALS, subject to some additional process specifications as well as completion of the sterility validation study for tests performed. This clearance is a significant milestone for the Company and may expedite further fundraisings.

On February 23, 2011, the Company submitted to the MOH the sterility validation study report, as required in the clearance granted by the MOH to the Company in October 2010, for a Phase I/II clinical trial using the Company's autologous NurOwn™ stem cell therapy in patients with ALS.

J. In February 2011, the U.S. Food and Drug Administration (FDA) granted orphan drug designation to the Company's NurOwn™ autologous adult stem cell product candidate for the treatment of amyotrophic lateral sclerosis (ALS).



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE 1 - GENERAL (Cont.)

GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the three months ended on March 31, 2011, resulted in a net loss of \$705. The Company's balance sheet reflects accumulated deficit of \$40,865. These conditions, together with the fact that the Company is a development stage and have no revenues nor that revenues are expected in the near future, raise substantial doubt about the Company's ability to continue to operate as a going concern. The Company's ability to continue operating as a "going concern" is dependent on several factors, among them is its ability to raise sufficient additional working capital.

As a result of the past difficulty, to raise sufficient funds, to support all of the Company's projects, the Company decided to reduce its activity and focus only on the effort to commence clinical trials in ALS amyotrophic lateral sclerosis (ALS) in 2011. During the first quarter of 2010, the Company entered into an agreement with Hadassah Medical Centre to conduct clinical trials in up to 26 ALS patients in 2011.

In February 2011, the Company raised approximately \$3.8 million from institutional and private investors. However, there can be no assurance that additional funds will be available on terms acceptable to the Company, or at all.

These financial statements do not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amount and classification of liabilities that may be required should the Company be unable to continue as a going concern.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2010 are applied consistently in these financial statements.

NOTE 3 - UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in a condensed format and include the consolidated financial operations of the Company and its wholly-owned subsidiary as of March 31, 2011 and for the three months then ended, in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles 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 months ended March 31, 2011, may not necessarily be indicative of the results that may be expected for the year ended December 31, 2011.

NOTE 4 - RESEARCH AND LICENSE AGREEMENT

The Company has a Research and License Agreement, as amended and restated, with Ramot. The Company obtained a waiver and release from Ramot pursuant to which Ramot agreed to an amended payment schedule regarding the Company's payment obligations under the Research and License Agreement and waived all claims against the

Company resulting from the Company's previous defaults and non-payment under the Research and License Agreement. The waiver and release amended and restated the original payment schedule under the original agreement providing for payments during the initial research period and additional payments for any extended research period.



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE 4 - RESEARCH AND LICENSE AGREEMENT (Cont.)

As of December 24, 2009, the Company had paid to Ramot \$400 but did not make payments totaling \$240 for the initial research period and payments totaling \$380 for the extended research period.

On December 24, 2009, the Company and Ramot entered into a settlement agreement which amended the Research and License Agreement, as amended and restated pursuant to which, among other things, the following matters were agreed upon:

- a) Ramot released the Company from its obligation to fund the extended research period in the total amount of \$1,140. Therefore, the Company reversed an expense in 2009, equal to \$760, from its research and development expenses that were previously expensed.
- b) Past due amounts of \$240 for the initial research period plus interest of \$32 owed by the Company to Ramot were converted into 1,120,000 shares of Common Stock on December 30, 2009. Ramot was required to deposit the shares with a broker and only sell the shares in the open market after 185 days from the issuance date.
- c) In the event that the total proceeds generated by sales of the shares on December 31, 2010, together with the March 31, 2010 payment, are less than \$240 on or prior to December 31, 2010, then on such date the Company would be required to pay to Ramot the difference between the proceeds that Ramot has received from sales of the shares up to such date together with the September Payment (if any) that has been transferred to Ramot up to such date, and \$240. Related compensation in the amount of \$51 was recorded as research and development expenses.

In January 2011, Ramot exercised additional 167,530 Common Stock of the Company, for \$35, which finalized the sale of the 1,120,000 Common Stock of the Company granted to Ramot for \$235. In February 2011, the Company paid the remaining \$5 and finalized the balance due to Ramot according to the settlement agreement between the parties dated December 24, 2009.

NOTE 5 - CONSULTING AGREEMENTS

- A. On July 8, 2004, the Company entered into consulting agreements with each of Prof. Eldad Melamed and Dr. Daniel Offen (together, the "Consultants"), under which the Consultants provide the Company scientific and medical consulting services in consideration for a monthly payment of \$6 each. In addition, the Company granted each of the Consultants, a fully vested warrant to purchase 1,097,215 shares of Common Stock at an exercise price of \$0.01 per share. The warrants issued pursuant to the agreements were issued to the Consultants effective as of November 4, 2004. Each of the warrants was exercisable for a seven-year period beginning on November 4, 2005. As of September 2010, all the above warrants had been exercised.
- B. On December 16, 2010, the Company granted to the consultants 1,100,000 shares of the Company's Common Stock for services rendered through December 31, 2010. Related compensation in the amount of \$220 is recorded as research and development expense.
- C.

As of March 31, 2011, the Company had a total liability of \$212 for services rendered by the Consultants under the abovementioned agreements.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

Notes to the financial statements

NOTE 6 - SHORT-TERM CONVERTIBLE NOTE

On December 13, 2009, the Company issued a \$135 Convertible Promissory Note to its legal advisor for \$217 in legal fees accrued through October 31, 2009. Interest on the Note accrued at the rate of 4%. The legal advisor had the right at any time to convert all or part of the outstanding principal and interest amount of the note into shares of Common Stock based on the five day average closing stock price prior to conversion election.

The difference between the amount the Company owed to the legal advisor and the principal of the Convertible Promissory Note in the amount of \$82 was deducted from general and administrative expenses. Since the outcome of the issuance of the shares was to relieve the debtor from its obligation, based on guidance in ASC 860-10 and ASC 450-20 Extinguishment of Liabilities” the Company derecognized the liability with the difference recognized in earnings.

On February 19, 2010, the Company's legal advisor converted the entire accrued principal and interest of a \$135 Convertible Promissory Note into 402,385 shares of Common Stock.

On September 15, 2010, the Company issued a \$135 Convertible Promissory Note to its legal advisor for certain legal fees accrued through December 31, 2010. Interest on the Note was at the annual rate of 4%. The legal advisor had the right at any time to convert all or part of the outstanding principal and interest amount of the note into shares of Common Stock based on the five day average closing stock price prior to conversion election.

On February 18, 2011, the legal advisor converted the entire accrued principal and interest into 445,617 shares of Common Stock.

NOTE 7 - SHORT-TERM LOANS

In March 2007, the Company issued a \$150 convertible note to a lender, with an annual interest rate of 8% for the first year, with an increase up to 10% after the first year. On January 27, 2010, the lender converted the entire accrued principal and interest of \$189 into 1,016,109 shares of Common Stock of the Company.

Since the outcome of the issuance of the shares was to relieve the debtor from its obligation, based on guidance in ASC 860-10 and ASC 450-20 Extinguishment of Liabilities” the Company derecognized the liability with the difference recognized in earnings.

NOTE 8 - STOCK CAPITAL

A.The rights of Common Stock are as follows:

Holders of Common Stock have the right to receive notice to participate and vote in annual and special meetings of the Stockholders of the Company, the right to a share in the excess of assets upon liquidation of the Company and the right to receive dividends, if declared.

The Common Stock is registered and publicly traded on the Over-the-Counter Bulletin Board service of the FINRA, under the symbol BCLI.



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
(A development stage company)

Notes to the financial statements

NOTE 8 - STOCK CAPITAL (Cont.)

B.Issuance of shares warrants and options:

1. Private placements:

- a) On June 24, 2004, the Company issued to investors 8,510,000 shares of Common Stock for total proceeds of \$60 (net of \$25 issuance expenses).
- b) On February 23, 2005, the Company completed a private placement for the sale of 1,894,808 units for total proceeds of \$1,418. Each unit consists of one share of Common Stock and a three-year warrant to purchase one share of Common Stock at \$2.50 per share. This private placement was consummated in three tranches which closed in October 2004, November 2004 and February 2005.
- c) On May 12, 2005, the Company issued to an investor 186,875 shares of Common Stock at a price of \$0.8 per share for total proceeds of \$149.
- d) On July 27, 2005, the Company issued to investors 165,000 shares of Common Stock at a price of \$0.6 per share for total proceeds of \$99.
- e) On August 11, 2005, the Company signed a private placement agreement with investors for the sale of up to 1,250,000 units at a price of \$0.8 per unit. Each unit consists of one share of Common Stock and one warrant to purchase one share of Common Stock at \$1.00 per share. The warrants are exercisable for a period of three years from issuance. On March 31, 2005, the Company sold 312,500 units for total net proceeds of \$225. On December 7, 2005, the Company sold 187,500 units for total net proceeds of \$135.
- f) On July 2, 2007, the Company entered into an investment agreement, pursuant to which the Company agreed to sell up to 27,500,000 shares of Common Stock, for an aggregate subscription price of up to \$5 million and warrants to purchase up to 30,250,000 shares of Common Stock. Separate closings of the purchase and sale of the shares and the warrants were originally scheduled to take place as follows:

Purchase date	Purchase price	Number of subscription shares	Number of warrant shares
August 30, 2007	\$1,250 (includes \$250 paid as a convertible loan)	6,875,000	7,562,500
November 15, 2007	\$ 750	4,125,000	4,537,500