

BRAINSTORM CELL THERAPEUTICS INC  
Form 10-Q  
May 17, 2010

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2010

TRANSITION REPORT UNDER 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.)

110 East 59th Street  
New York, NY 10022  
(Address of principal executive offices)

(212) 557-9000  
(Registrant's telephone number, including area code)

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.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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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 14, 2010, the number of shares outstanding of the registrant's common stock, \$0.00005 par value per share, was 89,404,862.

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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, 2010

UNAUDITED

U.S. DOLLARS IN THOUSANDS

1

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

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2010

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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

CONSOLIDATED BALANCE SHEETS

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

|  | March 31,<br>2010<br>Unaudited | December 31,<br>2009<br>Audited |
|--|--------------------------------|---------------------------------|
| <b>ASSETS</b>  |                                |                                 |
| <b>CURRENT ASSETS:</b>   |                                |                                 |
| Cash and cash equivalents  | \$ 1,215                       | \$ 1                            |
| Accounts receivable and prepaid expenses   | 158                            | 86                              |
| <b>Total current assets</b>  | <b>1,373</b>                   | <b>87</b>                       |
| <b>LONG-TERM INVESTMENTS:</b>  |                                |                                 |
| Prepaid expenses   | -                              | 7                               |
| Severance pay fund   | 81                             | 88                              |
| <b>Total long-term investments</b>   | <b>81</b>                      | <b>95</b>                       |
| <b>PROPERTY AND EQUIPMENT, NET</b>   | <b>538</b>                     | <b>575</b>                      |
| <b>Total assets</b>  | <b>\$ 1,992</b>                | <b>\$ 757</b>                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>   |                                |                                 |
| <b>CURRENT LIABILITIES:</b>  |                                |                                 |
| Short term Credit from bank  | \$ 9                           | \$ 46                           |
| Trade payables   | 539                            | 600                             |
| Other accounts payable and accrued expenses  | 1,324                          | 1,418                           |
| Short-term convertible note  | -                              | 135                             |
| Short-term convertible loans   | -                              | 189                             |
| <b>Total current liabilities</b>   | <b>1,872</b>                   | <b>2,388</b>                    |
| <b>ACCRUED SEVERANCE PAY</b>   | <b>117</b>                     | <b>112</b>                      |
| <b>Total liabilities</b>   | <b>1,989</b>                   | <b>2,500</b>                    |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                                | <b>-</b>                        |
| <b>STOCKHOLDERS' EQUITY (DEFICIENCY):</b>  |                                |                                 |
| Stock capital: (Note 7)  | 5                              | 4                               |
| Common stock of \$0.00005 par value - Authorized: 800,000,000 shares at March 31, 2010 and December 31, 2009; Issued and outstanding: 87,707,647 and 76,309,152 shares at March 31, 2010 and December 31, 2009 respectively. |                                |                                 |

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|   |          |          |
|---|----------|----------|
| Additional paid-in-capital                              | 38,354   | 35,994   |
| Deficit accumulated during the development stage        | (38,356) | (37,741) |
| Total stockholders' equity (deficiency)                 | 3        | (1,743)  |
| Total liabilities and stockholders' equity (deficiency) | \$ 1,992 | \$ 757   |

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, |            | Period from<br>September 22,<br>2000 (inception<br>date) through<br>March 31, |
|--|------------------------------|------------|---|
|  | 2010                         | 2009       | 2010  |
|  | Unaudited                    | Unaudited  | Unaudited   |
| <b>Operating costs and expenses:</b>   |                              |            |   |
| Research and development, net  | \$ 239                       | \$ 289     | \$ 21,924   |
| General and administrative   | 370                          | 251        | 13,624  |
| Total operating costs and expenses   | 609                          | 540        | 35,548  |
| Financial (income) expenses, net   | 6                            | (26)       | 2,591   |
| Operating loss   | 615                          | 514        | 38,139  |
| Taxes on income  | -                            | -          | 53  |
| Loss from continuing operations  | 615                          | 514        | 38,192  |
| Net loss from discontinued operations  | -                            | -          | 164   |
| Net loss   | \$ 615                       | \$ 514     | \$ 38,356   |
| 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 | 81,560,155                   | 55,241,418 |   |

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<br>Number | Common stock<br>Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock - based<br>compensation | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficiency) |
|---|------------------------|------------------------|----------------------------------|---|--|--|
| Balance as of September 22,<br>2000 (date of inception)                               | -                      | \$ -                   | \$ -                             | \$ -                                      | \$ -   | \$ -   |
| Stock issued on September 22,<br>2000 for cash at \$0.00188 per<br>share              | 8,500,000              | 1                      | 16                               | -   | -  | 17   |
| Stock issued on March 31,<br>2001 for cash at \$0.0375 per<br>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,<br>2003 to purchase mineral<br>option at \$0.065 per share | 100,000                | * -                    | 6                                | -   | -  | 6  |
| Cancellation of shares granted<br>to Company's President<br>(10,062,000)              | (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)  |

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

\* Represents an amount less than \$1.



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<br>for private placement at \$0.8<br>per share  | 186,875      | * -    | 149        | -             | -           | 149           |
| Stock issued on July 27, 2005<br>for private placement at \$0.6<br>per share   | 165,000      | * -    | 99         | -             | -           | 99            |
| Stock issued on September 30,<br>2005 for private placement at<br>\$0.8 per share  | 312,500      | * -    | 225        | -             | -           | 225           |
| Stock issued on December 7,<br>2005 for private placement at<br>\$0.8 per share  | 187,500      | * -    | 135        | -             | -           | 135           |
| Forfeiture of options granted<br>to employees  | -            | -      | (3,363)    | 3,363         | -           | -             |
| Deferred stock-based<br>compensation related to shares<br>and options granted to<br>directors and employees                    | 200,000      | * -    | 486        | (486)         | -           | -             |
| Amortization of deferred<br>stock-based compensation<br>related to options and shares<br>granted to employees and<br>directors | -            | -      | 51         | 1,123         | -           | 1,174         |
| Stock-based compensation<br>related to options and shares<br>granted to service providers                                      | 934,904      | * -    | 662        | -             | -           | 662           |
| Reclassification due to<br>application of ASC 815-40-25<br>(formerly EITF 00-19)   | -            | -      | (7,906)    | -             | -           | (7,906)       |
| Beneficial conversion feature<br>related to a convertible bridge<br>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)    |
| Elimination of deferred stock<br>compensation due to   | -            | -      | (1,395)    | 1,395         | -           | -             |

implementation of ASC  
718-10 (formerly SFAS  
123(R))

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

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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<br>Number | Common stock<br>Capital | Additional<br>paid-in<br>compensation | Deferred<br>Stock - based<br>stage | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficiency) |
|--|------------------------|-------------------------|---------------------------------------|------------------------------------|--|--|
| Balance as of December 31,<br>2006   | 24,201,812             | \$ 1                    | \$ 24,427                             | \$ -                               | \$ (26,244)  | \$ (1,816)                                       |
| Stock-based compensation<br>related to options and shares<br>granted to service providers          | 544,095                |                         | 1,446                                 | -                                  | -  | 1,446  |
| Warrants issued to convertible<br>note holder  | -                      | -                       | 109                                   | -                                  | -  | 109  |
| Stock-based compensation<br>related to shares and options<br>granted to directors and<br>employees | 200,000                | * -                     | 1,232                                 | -                                  | -  | 1,232  |
| Beneficial conversion feature<br>related to convertible loans                                      | -                      | -                       | 407                                   | -                                  | -  | 407  |
| Conversion of convertible<br>loans   | 725,881                | * -                     | 224                                   | -                                  | -  | 224  |
| Exercise of warrants   | 3,832,621              | * -                     | 214                                   | -                                  | -  | 214  |
| Stock issued for private<br>placement at \$0.1818 per unit,<br>net of finder's fee                 | 11,500,000             | 1                       | 1,999                                 | -                                  | -  | 2,000  |
| Net loss   | -                      | -                       | -                                     | -                                  | (6,244)  | (6,244)  |
| Balance as of December 31,<br>2007   | 41,004,409             | \$ 2                    | \$ 30,058                             | \$ -                               | \$ (32,488)  | \$ (2,428)                                       |
| Stock-based compensation<br>related to options and stock<br>granted to service providers           | 90,000                 | -                       | 33                                    | -                                  | -  | 33   |
| Stock-based compensation<br>related to stock and options<br>granted to directors and<br>employees  | -                      | -                       | 731                                   | -                                  | -  | 731  |
| Conversion of convertible<br>loans   | 3,644,610              | * -                     | 1,276                                 | -                                  | -  | 1,276  |
| Exercise of warrants   | 1,860,000              | * -                     | -                                     | -                                  | -  | -  |
| Exercise of options  | 17,399                 | * -                     | 3                                     | -                                  | -  | 3  |
|  | 8,625,000              | 1                       | 1,499                                 | -                                  | -  | 1,500  |

|  |            |    |     |    |         |    |            |
|--|------------|----|-----|----|---------|----|------------|
| Stock issued for private placement at \$0.1818 per unit, net of finder's fee |            |    |     |    |         |    |            |
| 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.

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

\* Represents an amount less than \$1.



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<br>Number | Common stock<br>Amount | Additional paid-in<br>capital | Deferred<br>stock - based<br>compensation | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficiency) |
|---|------------------------|------------------------|-------------------------------|---|--|--|
| Balance as of December 31,<br>2009  | 76,309,152             | \$ 4                   | \$ 35,994                     | \$ -                                      | \$ (37,741)  | \$ (1,743)                                       |
| Stock-based compensation<br>related to options and stock<br>granted to service providers          | 110,000                | (*)                    | 87                            | -   | -  | 87   |
| Stock-based compensation<br>related to stock and options<br>granted to directors and<br>employees | -                      | -                      | 96                            | -   | -  | 96   |
| Stock issued for amendment<br>of private placement  | 7,250,000              | 1                      | 1,750                         | -   | -  | 1,751  |
| Conversion of convertible<br>note   | 402,385                | (*)                    | 135                           | -   | -  | 135  |
| Conversion of convertible<br>loans  | 1,016,109              | (*)                    | 189                           | -   | -  | 189  |
| Exercise of options   | 350,000                | (*)                    | 53                            | -   | -  | 53   |
| Exercise of warrants  | 270,000                | (*)                    | -                             | -   | -  | -  |
| Subscription of shares<br>for private placement at<br>\$0.12 per unit                             | -                      | -                      | 50                            | -   | -  | 50   |
| Issuance of shares on<br>account of previously<br>subscribed shares (See also<br>Note 7B.1.f)     | 2,000,001              | (*)                    | -                             | -   | -  | -  |
| Net loss  | -                      | -                      | -                             | -   | (615)  | (615)  |
| Balance as of March 31,<br>2010   | 87,707,647             | \$ 5                   | \$ 38,354                     | \$ -                                      | \$ (38,356)  | \$ 3   |

\* 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

|   | Three months ended |           | Period from     |
|---|--------------------|-----------|-----------------|
|   | March 31,          | 2009      | September 22,   |
|   | 2010               | 2009      | 2000 (inception |
|   | Unaudited          | Unaudited | date) through   |
|   |                    |           | March 31,       |
|   |                    |           | 2010            |
|   |                    |           | Unaudited       |
| <b>Cash flows from operating activities:</b>  |                    |           |                 |
| Net loss  | \$ (615)           | \$ (514)  | \$ (38,356)     |
| Less - loss for the period from discontinued operations                                   | -                  | -         | 164             |
| Adjustments to reconcile net loss to net cash used in operating activities:               |                    |           |                 |
| Depreciation and amortization of deferred charges   | 42                 | 39        | 728             |
| Severance pay, net  | 12                 | (4)       | 36              |
| Accrued interest on loans   | -                  | 4         | 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                       | 87                 | 9         | 21,028          |
| Amortization of deferred stock-based compensation related to options granted to employees | 96                 | 109       | 5,394           |
| Increase in accounts receivable and prepaid expenses                                      | (65)               | (21)      | (151)           |
| Increase (decrease) in trade payables   | (61)               | 20        | 674             |
| Increase (decrease) in other accounts payable and accrued expenses                        | (94)               | 193       | 1,319           |
| Erosion of restricted cash  | -                  | 3         | (6)             |
| Net cash used in continuing operating activities  | (598)              | (162)     | (7,653)         |
| Net cash used in discontinued operating activities  | -                  | -         | (23)            |
| Total net cash used in operating activities   | \$ (598)           | \$ (162)  | \$ (7,676)      |
| <b>Cash flows from investing activities:</b>  |                    |           |                 |
| Purchase of property and equipment  | \$ (4)             | \$ -      | \$ (1,084)      |
| Restricted cash   | -                  | -         | 6               |
| Investment in lease deposit   | -                  | 5         | (7)             |
| Net cash used in continuing investing activities  | (4)                | 5         | (1,085)         |
| Net cash used in discontinued investing activities  | -                  | -         | (16)            |
| Total net cash used in investing activities   | \$ (4)             | \$ 5      | \$ (1,101)      |
| <b>Cash flows from financing activities:</b>  |                    |           |                 |
| Proceeds from issuance of Common stock, net   | \$ 1,800           | \$ 191    | \$ 8,399        |
| Proceeds from loans, notes and issuance of warrants, net                                  | -                  | -         | 2,061           |
| Credit from bank  | (37)               | (34)      | 9               |
| Proceeds from exercise of warrants and options  | 53                 | -         | 81              |
| Repayment of short-term loans   | -                  | -         | (601)           |

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|  |          |      |          |
|--|----------|------|----------|
| Net cash provided by continuing financing activities     | 1,816    | 157  | 9,949    |
| Net cash provided by discontinued financing activities   | -        | -    | 43       |
| Total net cash provided by financing activities          | 1,816    | 157  | 9,992    |
| Increase (decrease) in cash and cash equivalents         | 1,214    | -    | 1,215    |
| Cash and cash equivalents at the beginning of the period | 1        | 2    | -        |
| Cash and cash equivalents at end of the period           | \$ 1,215 | \$ 2 | \$ 1,215 |

Non-cash financing activities:

|   |        |   |          |
|---|--------|---|----------|
| Conversion of convertible loan and convertible note to shares | \$ 324 | - | \$ 1,800 |
|---|--------|---|----------|

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

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

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Notes to the financial statements

NOTE 1

GENERAL

- A. Brainstorm Cell Therapeutics Inc. (formerly: Golden Hand Resources Inc.) (the "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 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.

Following the licensing agreement dated July 8, 2004, the management of the Company decided to abandon all old activities related to the sale of the digital data recorder product. The discontinuation of this activity was accounted for under the provision of Statement of Financial Accounting Standard ASC 360-10 (formerly "SFAS" 144), "Accounting for the Impairment or Disposal of Long-Lived Assets".

- 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. BCT 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 December 2006, the Company changed its state of incorporation from Washington to Delaware.
- G. On September 17, 2006, the Company's Board determined to change the Company's fiscal year-end from March 31 to December 31.
- H. Since its inception, the Company has devoted substantially most 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).

GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the three months ended on March 31, 2010, resulted in a net loss of \$615 and the Company's balance sheet reflects net stockholders' equity of \$3 and accumulated deficit of \$38,356. These conditions 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. Management's plans in this regard include, among others, raising additional cash from current and potential stockholders and lenders.

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

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Notes to the financial statements

NOTE 1 - GENERAL (Cont.)

GOING CONCERN (Cont.)

Accordingly, as a result of the current economic situation and the difficulty to raise immediate fund to support all of the Company's projects, the Company decided to reduce its activity and focus only on the effort to reach clinical trials in ALS in 2010. During the first quarter of 2010, the Company entered into an agreement with Hadassah Medical Centre to conduct clinical trails in up to 26 ALS patients in 2010 and raised approximately \$1.8 million from investors for this purpose.

The Company also reduced its general and administrative expenses and ceased and delayed some development projects until it obtains sufficient financing. There can be no assurance that sufficient revenues will be generated in the future and 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, 2009, 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 fully owned subsidiary as of March 31, 2010 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, 2010, are not necessarily indicative of the results that may be expected for the year ended December 31, 2010.

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

## Notes to the financial statements

## NOTE 4 - RESEARCH AND LICENSE AGREEMENT

On July 26, 2007, the Company entered into a Second Amended and Restated Research and License Agreement with Ramot. On August 1, 2007, 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 Amended Research and License Agreement, dated March 30, 2006, and waived all claims against the Company resulting from the Company's previous defaults and non-payment under the Original Agreement and the Amended Research and License Agreement. The payments described in the waiver and release covered all payment obligations that were past due and not yet due pursuant to the Original Agreement. The waiver and release amends and restates the original payment schedule under the Original Agreement as follows:

| Payment date      | Amount |
|-------------------|--------|
| September 5, 2007 | 100    |
| November 20, 2007 | 150    |
| February 20, 2008 | 150    |
| May 20, 2008      | 150    |
| August 4, 2008    | 90     |

In addition, in the event that the "research period," as defined in the Amended Research and License Agreement, is extended for an additional three year period in accordance with the terms of the Amended Research and License Agreement, then the Company is obligated to the following payments to Ramot during the first year of the extended research period:

| Payment date      | Amount |
|-------------------|--------|
| August 4, 2008    | 60     |
| November 20, 2008 | 150    |
| February 20, 2009 | 170    |

If the Company fails to make a payment to Ramot on any required payment date, and the Company does not cure the default within seven business days of notice of the default, all claims of Ramot against the Company, which were waived and released by the waiver and release, may be reinstated.

As of December 24, 2009, the Company paid to Ramot the first three payments totaling \$400 but did not make the last two payments totaling \$240 and for the extended research period.

On December 24, 2009, the Company and Ramot entered into a settlement agreement which also amended the Research and License Agreement in July 8, 2004 and the first and second amendments to the agreement pursuant to which, among others, 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 deleted an amount in 2009, equal to \$ 760 from its research and development expenses that were previously expensed.

- b) Past due amount of \$240 for the initial research period plus interest of \$32 owed by the Company to Ramot was converted into 1,120,000 shares of common stock on December 30, 2009. Ramot is required to deposit the shares with a broker and only sell the shares in the free market after 185 days from the issuance date.



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

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Notes to the financial statements

NOTE 4 - RESEARCH AND LICENSE AGREEMENT (Cont.)

In the event that the total proceeds generated by sales of the shares are less than \$120 on or prior to September 30, 2010 ("September Payment"), then on such date the Company shall pay to Ramot the difference between the aggregate proceeds that have been received by Ramot up to such date, and \$120. In the event that the total proceeds generated by sales of the shares on December 31, 2010, together with the September 30, 2010 payment, are less than \$240 on or prior to December 31, 2010, then on such date the Company shall 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.

NOTE 5 - CONSULTING AGREEMENTS

- A. On July 8, 2004, the Company entered into two consulting agreements with Prof. Eldad Melamed and Dr. Daniel Offen (together, the "Consultants"), upon which the Consultants shall 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 agreement were issued to the Consultants effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005
- B. As of March 31, 2010, the Company has a total obligation of \$388 for services rendered by the Consultants.

NOTE 6 - SHORT-TERM LOANS

On March 2007, the company has signed a convertible note with a lender in return of 150\$, the note bear an interest of 8%, for the first year and 10% afterword. The lender had the right to convert the debt to the company shares. .On January 27, 2010, the lender converted the entire accrued principle and interest of \$189 Convertible Promissory Note into 1,016,109 shares of Common Stock

Since the outcome of the issuance of the shares was to relieve the debtor from its obligation, based on guidance in ASC 860-10 (formerly FASB No 140) "Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities" the Company derecognized the liability with the difference recognized in earning.

NOTE 7 - 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 general meetings 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 National Association of Securities Dealers, Inc. under the symbol BCLI.

- 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).

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

## Notes to the financial statements

## NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

1. Private placements: (Cont.)

- b) On February 23, 2005, the Company completed a private placement for 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 for total proceeds of \$149 at a price of \$0.8 per share.
- d) On July 27, 2005, the Company issued to investors 165,000 shares of Common Stock for total proceeds of \$99 at a price of \$0.6 per share.
- 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 September 30, 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 shall take place as follows:

| Purchase date     | Purchase price   | Number of<br>subscription<br>shares | Number of<br>warrant<br>shares |
|-------------------|--|-------------------------------------|--------------------------------|
|                   | \$ 1,250(includes<br>\$250 paid as a<br>convertible<br>loan (Note 8i)) | 6,875,000                           | 7,562,500                      |
| August 30, 2007   |  |                                     |                                |
| November 15, 2007 | \$ 750   | 4,125,000                           | 4,537,500                      |
| February 15, 2008 | \$ 750   | 4,125,000                           | 4,537,500                      |
| May 15, 2008      | \$ 750   | 4,125,000                           | 4,537,500                      |
| July 30, 2008     | \$ 750   | 4,125,000                           | 4,537,500                      |
| November 15, 2008 | \$ 750   | 4,125,000                           | 4,537,500                      |

At each closing date, the Company shall deliver to the investor the number of shares and warrants, subject to customary closing conditions and the delivery of funds, described above. The warrants shall have the following exercise prices: (i) the first 10,083,333 warrants have an exercise price of \$0.20 per share; (ii) the next 10,083,333

warrants will have an exercise price of \$0.29 per share; and (iii) the final 10,083,334 warrants issued will have an exercise price of \$0.36 per share. All warrants will expire on November 5, 2011.

On August 18, 2009, the Company entered into an amendment to the investment agreement with the investor as follows:

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

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Notes to the financial statements

NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

1. Private placements: (Cont.)

- (a) The investor shall invest the remaining amount of the original investment agreement at price per share of \$0.12 in monthly installments of not less than \$50 starting August 1, 2009. The investor may accelerate such payments in its discretion.
- (b) The exercise price of the last 10,083,334 warrants will decrease from an exercise price of \$0.36 per share to \$0.29 per share.
- (c) All warrants will expire on November 5, 2013 instead of November 5, 2011.
- (d) The price per share of the investment agreement shall be decreased from \$0.1818 to \$0.12, therefore the Company shall adjust the number of Shares of Common Stock issuable pursuant to the investment agreement retroactively and shall issue to the investor additional 9,916,667 Shares of Common Stock for past investment. On October 28, 2009, the 9,916,667 Shares of Common Stock were issued.
- (e) The investor shall have the right to cease payments in the event that the price per share as of the closing on five consecutive trading days shall decrease to \$0.05.

As of March 31, 2010, the investor completed payment of the first five installments and \$324 of the sixth installment and the Company issued to the investor and its designees an aggregate of 29,166,667 shares of common stock and a warrant to purchase 10,083,333 shares of the Company's common stock at an exercise price of \$0.20 per share and a warrant to purchase 15,629,167 shares of common stock at an exercise price of \$0.29 per share. The warrants may be exercised at any time and expire on November 5, 2013. The Company has issued 2,000,001 shares of common stock on behalf of the investor and the investor is due to be issued an additional 4,249,999 shares of common stock for the fifth installment that had already been paid.

The investor has yet to fully complete its obligation based on the investment agreement above and is due to invest an additional amount according to the agreement.

As of March 31, 2010, 875,000 shares of Common Stock had been issued as an introduction fee.

- g) On January 2010, the Company issued 1,250,000 units for total proceeds of \$250 from private investor. Each unit consists of one share of Common Stock and a two-year warrant to purchase one share of Common Stock at \$0.50 per share.
- h) On February 2010, the Company issued 6,000,000 shares of Common Stock for 3 investors (2,000,000 for each investor) and two years warrants purchasing an aggregate of 3,000,000 shares of Common Stock (1,000,000 for each investor) with an exercise price of \$0.5 for an aggregate amount of \$1,500 (\$500 each).

2. Share-based compensation to employees and to directors:

a) Options to employees and directors:

On November 25, 2004, the Company's stockholders approved the 2004 Global Stock Option Plan and the Israeli Appendix thereto (which applies solely to participants who are residents of Israel) and on March 28, 2005, the Company's stockholders approved the 2005 U.S. Stock Option and Incentive Plan, and the reservation of 9,143,462 shares of Common Stock for issuance in the aggregate under these stock option plans.

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

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Notes to the financial statements

NOTE 7 - STOCK CAPITAL (Cont.)

- B. Issuance of shares, warrants and options: (Cont.)
  - 2. Share-based compensation to employees and to directors: (Cont.)
    - a) Options to employees and directors: (Cont.)

Each option granted under the plans is exercisable until the earlier of ten years from the date of grant of the option or the expiration dates of the respective option plans. The 2004 and 2005 options plans will expire on November 25, 2014 and March 28, 2015, respectively. The exercise price of the options granted under the plans may not be less than the nominal value of the shares into which such options are exercised. The options vest primarily over three or four years. Any options that are canceled or forfeited before expiration become available for future grants.

On June 5, 2008, the Company's stockholders approved to amend and restate the Company's 2004 Global Share Option Plan and 2005 U.S. Stock Option and Incentive Plan to increase the number of shares of common stock available for issuance under these stock option plans in the aggregate by 5,000,000 shares.

As of March 31, 2010, 4,021,684 options are available for future grants.

On May 27, 2005, the Company granted one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.75 per share. The options are fully vested and expire after 10 years.

On February 6, 2006, the Company entered into an amendment to the Company's option agreement with the Company's Chief Financial Officer. The amendment changes the exercise price of the 400,000 options granted to him on February 13, 2005 from \$0.75 to \$0.15 per share.

On May 2, 2006, the Company granted to one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. The options are fully vested and expire after 10 years. The compensation related to the options, in the amount of \$48, was recorded as general and administrative expense.

On June 22, 2006, the Company entered into an amendment to the Company's option agreement with two of its employees. The amendment changes the exercise price of 270,000 options granted to them from \$0.75 to \$0.15 per share. The excess of the fair value resulting from the modification, in the amount of \$2, was recorded as general and administration expense over the remaining vesting period of the option.

On September 17, 2006, the Company entered into an amendment to the Company's option agreement with one of its directors. The amendment changes the exercise price of 100,000 options granted to the director from \$0.75 to \$0.15 per share.

On March 21, 2007, the Company granted to one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. The option is fully vested and is exercisable for a period of 10 years. The compensation related to the option, in the amount of \$43, was recorded as general and administrative expense.

On July 1, 2007, the Company granted to one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. The option is fully vested and is exercisable for a period of 10 years. The compensation related to the option, in the amount of \$38, was recorded as general and administrative expense. On October 22, 2007, the Company and the director agreed to cancel and relinquish all the options which were granted on July 1, 2007.

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

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Notes to the financial statements

NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

2. Share-based compensation to employees and to directors: (Cont.)

a) Options to employees and directors: (Cont.)

On July 16, 2007, the Company granted to one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. The option is fully vested and is exercisable for a period of 10 years. The compensation related to the option, in the amount of \$75, was recorded as general and administrative expense.

On August 27, 2007, the Company granted to one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. The option is fully vested and is exercisable for a period of 10 years. The compensation related to the option, in the amount of \$84, was recorded as general and administrative expense.

On October 23, 2007, the Company granted to its CEO an option to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.87 per share. The option vests with respect to 1/6 of the option on each six month anniversary and expires after 10 years. The total compensation related to the option is \$733, which is amortized over the vesting period as general and administrative expense.

On November 5, 2008, the Company entered into an amendment to the Company's option to purchase 1,000,000 shares of common stock agreement with the Company's CEO. The amendment changes the exercise price of the option from \$0.87 to \$0.15 per share. The compensation related the modification of the purchase price in the amount of \$4 was recorded as general and administrative expense.

On June 29, 2009, the Company granted to its CEO and director an option to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.067 per share. The option vests with respect to 1/3 of the option on each year anniversary and expires after 10 years. The total compensation related to the option is \$68, which is amortized over the vesting period as general and administrative expense.

On June 29, 2009, the Company granted to its CFO an option to purchase 200,000 shares of Common Stock at an exercise price of \$0.067 per share. The option vests with respect to 1/3 of the option on each year anniversary and expires after 10 years. The total compensation related to the option is \$8, which is amortized over the vesting period as general and administrative expense.

On August 31, 2009, the Company granted to two of its directors an option to purchase 100,000 shares of Common Stock for each of them at an exercise price of \$0.15 per share. The option vests with respect to 1/3 of the option on each year anniversary and expires after 10 years. The total compensation related to the option is \$32, which is amortized over the vesting period as general and administrative expense.

On December 13, 2009, the Company granted to one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. The option is fully vested and is exercisable for a period of 10 years. The compensation related to the option, in the amount of \$21, was recorded as general and administrative expense.

On February 10, 2010, the Company granted to its employee an option to purchase 30,000 shares of Common Stock at an exercise price of \$0.32 per share. The option vests with respect to 1/3 of the option on each year anniversary and expires after 10 years. The total compensation related to the option is \$9, which is amortized over the vesting period as Research and development expense.

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

## Notes to the financial statements

## NOTE 7 - STOCK CAPITAL (Cont.)

## B. Issuance of shares, warrants and options: (Cont.)

## 2. Share-based compensation to employees and to directors: (Cont.)

## a) Options to employees and directors: (Cont.)

A summary of the Company's option activity related to options to employees and directors, and related information is as follows:

|  | For the period ended March 31, 2010 |  |                                       |
|--|-------------------------------------|--|---------------------------------------|
|  | Amount of<br>options                | Weighted<br>average<br>exercise<br>price<br>\$ | Aggregate<br>intrinsic<br>value<br>\$ |
| Outstanding at beginning of period           | 6,488,361                           | 0.187  | -                                     |
| Granted                                      | 30,000                              | 0.32   | -                                     |
| Exercised                                    | (350,000)                           | 0.158  | -                                     |
| Cancelled                                    | (285,000)                           | 0.463  | -                                     |
|  |                                     |  | -                                     |
| Outstanding at end of period                 | 6,488,361                           | 0.176  | 1,069,939                             |
| Vested and expected-to-vest at end of period | 3,945,792                           | 0.215  | 599,455                               |

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

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Notes to the financial statements

NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

2. Share-based compensation to employees and to directors: (Cont.)

b) Restricted shares to directors:

On May 2, 2006, the Company issued to two of its directors 200,000 restricted shares of common stock (100,000 each). The restricted shares are subject to the Company's right to repurchase them at a purchase price of par value (\$0.00005). The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date. The compensation related to the stocks issued amounted to \$104, which will be amortized over the vesting period as general and administrative expenses.

On April 20, 2007, based on a board resolution dated March 21, 2007, the Company issued to its director 100,000 restricted shares of common stock. The restricted shares are subject to the Company's right to repurchase them at a purchase price of par value (\$0.00005). The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date. The compensation related to the shares issued amounted to \$47, which will be amortized over the vesting period as general and administrative expenses.

In addition, on April 20, 2007, based on a board resolution dated March 21, 2007, the Company issued to another director 100,000 restricted shares of common stock. The restricted shares are not subject to any right to repurchase, and the compensation related to the shares issued amounted to \$47 was recorded as prepaid general and administrative expenses in the three months ended March 31, 2007.

On August 27, 2008 the Company issued to its director 960,000 shares of common stock upon a cashless exercise by a shareholder of a warrant to purchase 1,000,000 shares of Common Stock at an exercise price of \$.01 per share that was acquired by the shareholder from Ramot. The shares were allocated to the director by the shareholder.

3. Shares and warrants to service providers:

The Company accounts for shares and warrant grants issued to non-employees using the guidance of ASC 718-10 (formerly "SFAS" 123(R)), "Accounting for Stock-Based Compensation" and ASC 505-50-30 (formerly "EITF" 96-18), "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," whereby the fair value of such option and warrant grants is determined using a Black-Scholes options pricing model at the earlier of the date at which the non-employee's performance is completed or a performance commitment is reached.

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

## Notes to the financial statements

## NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

3. Shares and warrants to service providers: (Cont.)

a) Warrants to service providers and investors:

| Issuance date           | Number of warrants issued | Exercised | Forfeited | Outstanding | Exercise Price \$ | Warrants exercisable | Exercisable through |
|-------------------------|---------------------------|-----------|-----------|-------------|-------------------|----------------------|---------------------|
| November 2004           | 12,800,845                | 6,778,708 | 151,803   | 5,870,334   | 0.01              | 5,870,334            | November 2012       |
| December 2004           | 1,800,000                 | 1,800,000 |           | -           | 0.00005           | --                   | -                   |
| February 2005           | 1,894,808                 |           | 1,894,808 | -           | 2.5               | -                    |                     |
| May 2005                | 47,500                    |           |           | 47,500      | 1.62              | 47,500               | May 2010            |
| June 2005               | 30,000                    |           |           | 30,000      | 0.75              | 30,000               | June 2010           |
| August 2005             | 70,000                    |           | 70,000    | -           | 0.15              | -                    | -                   |
| September 2005          | 3,000                     | 3,000     |           | -           | 0.15              | -                    | -                   |
| September 2005          | 36,000                    |           |           | 36,000      | 0.75              | 36,000               | September 2010      |
| September-December 2005 | 500,000                   |           | 500,000   | -           | 1                 | -                    | -                   |
| December 2005           | 20,000                    | 20,000    |           | -           | 0.15              | -                    | -                   |
| December 2005           | 457,163                   |           |           | 457,163     | 0.15              | 457,163              | July 2010           |
| February 2006           | 230,000                   |           |           | 230,000     | 0.65              | 230,000              | February 2016       |
| February 2006           | 40,000                    |           |           | 40,000      | 1.5               | 40,000               | February 2011       |
| February 2006           | 8,000                     |           |           | 8,000       | 0.15              | 8,000                | February 2011       |
| February 2006           | 189,000                   | 97,696    | 91,304    | -           | 0.5               | -                    | -                   |
| May 2006                | 50,000                    |           |           | 50,000      | 0.0005            | 50,000               | May 2016            |
| May -December 2006      | 48,000                    |           |           | 48,000      | 0.35              | 48,000               | May -December 2011  |
| May -December 2006      | 48,000                    |           |           | 48,000      | 0.75              | 48,000               | May -December 2011  |

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|                |           |         |           |       |           |                     |
|----------------|-----------|---------|-----------|-------|-----------|---------------------|
| May 2006       | 200,000   |         | 200,000   | 1     | 200,000   | May 2011            |
| June 2006      | 24,000    |         | 24,000    | 0.15  | 24,000    | June 2011           |
| May 2006       | 19,355    |         | 19,355    | 0.15  | 19,355    | May 2011            |
| October 2006   | 630,000   | 630,000 | -         | 0.3   | -         | -                   |
| December 2006  | 200,000   | 200,000 | -         | 0.45  | -         | -                   |
| March 2007     | 200,000   |         | 200,000   | 0.47  | 200,000   | March 2012          |
| March 2007     | 500,000   |         | 500,000   | 0.47  | 458,333   | March 2017          |
| March 2007     | 50,000    | 50,000  | -         | 0.15  | -         | -                   |
| March 2007     | 15,000    |         | 15,000    | 0.15  | 15,000    | February 2012       |
| February 2007  | 50,000    | 50,000  | -         | 0.45  | -         | -                   |
| March 2007     | 225,000   | 225,000 | -         | 0.45  | -         | -                   |
| March 2007     | 50,000    | 50,000  | -         | 0.45  | -         | -                   |
| April 2007     | 33,300    | 25,000  | 8,300     | 0.45  | 8,300     | April 2010          |
| May 2007       | 250,000   | 250,000 | -         | 0.45  | -         | -                   |
| July 2007      | 500,000   |         | 500,000   | 0.39  | 402,778   | July 2017           |
| September 2007 | 500,000   |         | 500,000   | 0.15  | 500,000   | August 2017         |
| August 2007    | 7,562,500 |         | 7,562,500 | 0.2   | 7,562,500 | November 2013       |
| July 2007      | 30,000    | 30,000  | -         | 0.45  | -         | -                   |
| July 2007      | 100,000   |         | 100,000   | 0.45  | 100,000   | July 2010           |
| October 2007   | 200,000   |         | 200,000   | 0.15  | 200,000   | August-October 2017 |
| November 2007  | 2,520,833 |         | 2,520,833 | 0.20  | 2,520,833 | November 2013       |
| November 2007  | 2,016,667 |         | 2,016,667 | 0.29  | 2,016,667 | November 2013       |
| April 2008     | 4,537,500 |         | 4,537,500 | 0.29  | 4,537,500 | November 2013       |
| August 2008    | 3,529,166 |         | 3,529,166 | 0.29  | 3,529,166 | November 2013       |
| August 2008    | 1,008,334 |         | 1,008,334 | 0.36  | 1,008,333 | November 2013       |
| November 2008  | 100,000   |         | 100,000   | 0.15  | 100,000   | September 2018      |
| April 2009     | 200,000   |         | 200,000   | 0.1   | -         | April 2019          |
| October 2009   | 200,000   |         | 200,000   | 0.067 | -         | October 2019        |
| October 2009   | 4,537,500 |         | 4,537,500 | 0.29  | 4,537,500 | November 2013       |
| January 2010   | 1,250,000 |         | 1,250,000 | 0.5   | 1,250,000 |                     |

|               |            |           |           |            | January<br>2012               |
|---------------|------------|-----------|-----------|------------|-------------------------------|
| February 2010 | 125,000    |           | 125,000   | 0.01       | February<br>2012<br>125,000   |
| February 2010 | 3,000,000  |           | 3,000,000 | 0.5        | February<br>2012<br>3,000,000 |
|               | 52,636,471 | 9,329,404 | 3,587,915 | 39,719,152 | 39,313,597                    |

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

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## Notes to the financial statements

## NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

3. Shares and warrants to service providers: (Cont.)

a) Warrants: (Cont.)

The fair value for the warrants to service providers was estimated on the date of grant using a Black-Scholes option pricing model, with the following weighted-average assumptions for the 3 month activity ended on March 31, 2010; weighted average volatility of 140%-141%, risk free interest rates of 2.39%-3.14% dividend yields of 0% and a weighted average life of the options of 5.5-6.5 years.

b) Shares:

On June 1 and June 4, 2004, the Company issued 40,000 and 150,000 shares of Common Stock for 12 months of filing services and legal and due-diligence services, respectively, with respect to a private placement. Compensation expense related to filing services, totaling \$26, is amortized over a 12-month period. Compensation related to legal services, totaling \$105 was recorded as equity issuance cost and had no effect on the statement of operations.

On July 1 and September 22, 2004, the Company issued 20,000 and 15,000 shares to a former director for financial services for the first and second quarters of 2004, respectively. Related compensation in the amount of \$39 was recorded as general and administrative expense.

On February 10, 2005, the Company signed an agreement with one of its service providers according to which the Company issued the service provider 100,000 restricted shares at a purchase price of \$0.00005 par value under the U.S Stock Option and Incentive Plan of the Company. The restricted shares are subject to the Company's right to repurchase them within one year of the grant date as follows: (i) in the event that the service provider breaches his obligations under the agreement, the Company shall have the right to repurchase the restricted shares at a purchase price equal to par value; and (ii) in the event that the service provider has not breached his obligations under the agreement, the Company shall have the right to repurchase the restricted shares at a purchase price equal to the then fair market value of the restricted shares.

In March and April 2005, the Company signed an agreement with four members of its Scientific Advisory Board according to which the Company issued to the members of the Scientific Advisory Board 400,000 restricted shares at a purchase price of \$0.00005 par value under the U.S Stock Option and Incentive Plan (100,000 each). The restricted shares will be subject to the Company's right to repurchase them if the grantees cease to be members of the Company's Advisory Board for any reason. The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date.

In July 2005, the Company issued to its legal advisors 50,000 shares for legal services for 12 months. The compensation related to the shares in the amount of \$37.5 was recorded as general and administrative expense.

In January 2006, the Company issued to two service providers 350,000 restricted shares at a purchase price of \$0.00005 par value under the U.S Stock Option and Incentive Plan of the Company. The restricted shares are subject



to the Company's right to repurchase them within 12 months from the grant date as follows: (i) in the event that the service providers breach their obligations under the agreement, the Company shall have the right to repurchase the restricted shares at a purchase price equal to the par value; and (ii) in the event that the service providers have not breached their obligations under the service agreements, the Company shall have the right to repurchase the restricted shares at a purchase price equal to the fair market value of the restricted shares. Related compensation in the amount of \$23 was recorded as general and administrative expense.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
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Notes to the financial statements

NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

3. Shares and warrants to service providers: (Cont.)

b) Shares: (Cont.)

On March 6, 2006, the Company issued to its legal advisor 34,904 shares of Common Stock. The shares are in lieu of \$18.5 payable to the legal advisor. Related compensation in the amount of \$18.5 was recorded as general and administrative expense.

On April 13, 2006, the Company issued to service providers 60,000 shares at a purchase price of \$0.00005 par value under the U.S Stock Option and Incentive Plan of the Company. Related compensation in the amount of \$25.8 was recorded as general and administrative expense.

On May 9, 2006, the Company issued to its legal advisor 65,374 shares of Common Stock in lieu of payment for legal services. Related compensation in the amount of \$33 was recorded as general and administrative expense.

On June 7, 2006, the Company issued 50,000 shares of Common Stock for filing services for 12 months. Related compensation in the amount of \$24.5 was recorded as general and administrative expense.

On May 5, 2006, the Company issued 200,000 shares to a finance consultant for his services. Related compensation in the amount of \$102 was recorded as general and administrative expense.

On August 14, 2006, the Company issued 200,000 shares to a service provider. Related compensation in the amount of \$68 was recorded as general and administrative expense.

On August 17, 2006, the Company issued 100,000 shares to a service provider. Related compensation in the amount of \$35 was recorded as general and administrative expense.

On September 17, 2006, the Company issued to its legal advisor 231,851 shares of Common Stock. The shares are in lieu of \$63 payable to the legal advisor.

During April 1 and September 30, 2006, the Company issued to its business development advisor, based on an agreement, 240,000 shares of Common Stock. Related compensation in the amount of \$74 was recorded as general and administrative expense.

On January 3, 2007, the Company issued to its legal advisor 176,327 shares of Common Stock. The shares are for the \$45 payable to the legal advisor. Related compensation in the amount of \$49 was recorded as general and administrative expense.

On April 12, 2007, the Company issued to its filing and printing service providers 80,000 shares of Common Stock. The shares issued are for the \$15 payable to the service provider. Related compensation in the amount of \$30 was recorded as general and administrative expense. In addition, the Company is obligated to issue the filing and printing

service providers additional shares, in the event that the total value of the shares previously issued (as quoted on the Over-the-Counter Bulletin Board or such other exchange where the Common Stock is quoted or listed) is less than \$0.20, on March 20, 2008. In no event shall the Company issue more than 30,000 additional shares to the service providers. As a result, the Company recorded a liability in the amount of \$20.

On April 12, 2007, the Company issued to its legal advisor 108,511 shares of Common Stock. The shares are for \$29 payable to the legal advisor. Related compensation in the amount of \$40 was recorded as general and administrative expense.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
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## Notes to the financial statements

## NOTE 7 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options: (Cont.)

3. Shares and warrants to service providers: (Cont.)

b) Shares: (Cont.)

On May 18, 2007, the Company issued to its legal advisor 99,257 shares of Common Stock. The shares are for \$33, payable to the legal advisor. Related compensation in the amount of \$33 was recorded as general and administrative expense.

On October 29, 2007, the Company issued to a scientific advisory board member 80,000 shares of the Company's Common Stock for scientific services. Compensation of \$67 was recorded as research and development expense.

On May 20, 2008, the Company issued to its finance advisor 90,000 shares of the Company's common stock. The shares are for \$35 payable to the finance advisor for introduction fee of past convertible loans. Related compensation in the amount of \$36 is recorded as finance expenses.

On April 5, 2009, the Company issued to its Chief Technology Advisor 1,800,000 shares of Common Stock. The shares are for \$180 payable to the advisor. Related compensation in the amount of \$144 was recorded as research and development expense.

On June 24, 2009, the Company issued to its public relation advisor 250,000 shares of Common Stock. The shares are for \$25 payable to the advisor. Related compensation in the amount of \$18 was recorded as general and administrative expense.

On July 8, 2009, the Company issued to its finance consultant 285,714 shares of the Company's Common Stock. The shares are for \$20 payable to the finance consultant for valuation of options and warrants. Related compensation in the amount of \$20 is recorded as general and administrative expense.

On July 15, 2009, the Company issued to its service provider 357,142 shares of the Company's common stock. The shares are for \$25 payable to the service provider for filing services. Related compensation in the amount of \$21 is recorded as general and administrative expense.

On August 10, 2009, the Company issued to its service provider 71,428 shares of the Company's Common Stock. The shares are for \$5 payable to the service provider for IT services. Related compensation in the amount of \$4 is recorded as general and administrative expense.

On January 5, 2010, the Company issued to its public relation advisors 50,000 shares of the Company's Common Stock for six months service. The issuance of the shares is part of the agreement with the public relation advisors that entitle to get a monthly grant of 8,333 shares of the Company's common stock. Related compensation in the amount of \$12 is recorded as general and administrative expense.

On January 6, 2010, the Company issued to its service provider 60,000 shares of the Company's Common Stock. The shares are for \$15 payable to the service provider for insurance and risk management consulting and agency services for three years. Related compensation in the amount of \$16 is recorded as general and administrative expense.

On March 5, 2007, the Company issued a \$150 Convertible Promissory Note to a third party. Interest on the note accrues at the rate of 8% per annum for the first year and 10% per annum afterward. upon the occurrence of certain events of default the note will become immediately due and payable The company has not paid the loan on the original maturity date and On January 27, 2010, the third party converted the entire accrued principle and interest Promissory Note amounting to \$189 Convertible into 1,016,109 shares of Common Stock

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
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## Notes to the financial statements

## NOTE 7:- STOCK CAPITAL (Cont.)

- B. Issuance of shares, warrants and options: (Cont.)
3. Shares and warrants to service providers: (Cont.)
- b) Shares: (Cont.)

On December 13, 2009, the Company issued a \$135 Convertible Promissory Note to its legal advisor for \$217 legal fee accrued through October 31, 2009. Interest on the note accrues at the rate of 4%. The legal advisor has 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 19, 2010, the Company's legal advisor converted the entire accrued principal and interest of \$135 Convertible Promissory Note granted on December 13, 2009 into 402,385 shares of Common Stock.

The total stock-based compensation expense, related to shares, options and warrants granted to employee's directors and service providers, was comprised, at each period, as follows:

|   | Three months ended<br>March 31,<br>2010 | March 31,<br>2009 | Period from<br>September 22,<br>2000 (inception<br>date) through<br>March 31,<br>2010 |
|---|---|-------------------|---|
| Research and development                      | 30                                      | 30                | 16,944  |
| General and administrative                    | 155                                     | 88                | 8,638   |
| Financial expenses, net                       | -                                       | -                 | 56  |
| <b>Total stock-based compensation expense</b> | <b>185</b>                              | <b>118</b>        | <b>25,638</b>   |

## NOTE 8 - SUBSEQUENT EVENTS

- A. On April 6, 2010 following the agreement with Prof Eldad Melamed as described in note 5A, Prof. Melamed exercised 1,097,215 of his warrants into 1,097,215 shares of the Company's Common Stock. The warrants were issued to him pursuant to the agreement with the Consultants effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005

- B. On April 13, 2010, the Board of Directors of the Company elected Avi Israeli ("Israeli") as the Chairman of its Board of Directors.

On April 13, 2010, the Company, Israeli and Hadasit Medical Research Services and Development Ltd. (“Hadasit”) entered into an Agreement (the “Agreement”) pursuant to which Israeli agreed, during the term of the Agreement, to serve as (i) the Company’s Clinical Trials Advisor and (ii) a member of the Company’s Board of Directors. Any party may terminate the Agreement upon 30 days prior notice to the other parties. In consideration of the services to be provided by Israeli to the Company under the Agreement, the Company agreed to grant options annually during the term of the Agreement for the purchase of its common stock, \$0.00005 par value per share (the “Common Stock”), as follows:

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BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY  
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Notes to the financial statements

NOTE 8 - SUBSEQUENT EVENTS (Cont.)

\* An option for the purchase of 166,666 shares of Common Stock at an exercise price equal to \$0.00005 per share to Israeli; and

\* An option for the purchase of 33,334 shares of Common Stock at an exercise price equal to \$0.00005 per share to Hadasit,

\* Such options to vest and become exercisable in twelve (12) consecutive equal monthly amounts and to be evidenced by separate stock option agreements to be entered into between the Company and each of the option holders.

C. In May 2010, based on a board resolution dated June 29, 2009, the Company issued to three of its directors 300,000 restricted shares of common stock. The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date.

D. In May 2010, based on a board resolution dated June 29, 2009 the Company issued to one of its public relation advisor 100,000 restricted shares of common stock. The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date.

E. In May 2010, based on a board resolution dated June 29, 2009 the Company issued to two of its Scientific Advisory Board members 200,000 restricted shares of common stock. The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains numerous statements, descriptions, forecasts and projections, regarding Brainstorm Cell Therapeutics Inc. and its potential future business operations and performance. These statements, descriptions, forecasts and projections constitute "forward-looking statements," and as such involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance and achievements to be materially different from any results, levels of activity, performance and achievements expressed or implied by any such "forward-looking statements." Some of these are described under "Risk Factors" in this report and in our annual report on Form 10-K for the fiscal year ended December 31, 2009. In some cases you can identify such "forward-looking statements" by the use of words like "may," "will," "should," "could," "expects," "hopes," "anticipates," "believes," "intends," "plans," "estimates," "predicts," "likely," "potential," or "continue" or the negative of any of these terms or similar variations. These "forward-looking statements" are based on certain assumptions that we have made as of the date hereof. To the extent these assumptions are not valid, the associated "forward-looking statements" and projections will not be correct. Although we believe that the expectations reflected in these "forward-looking statements" are reasonable, we cannot guarantee any future results, levels of activity, performance or achievements. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we may not inform you if they do and we undertake no obligation to do so. We caution investors that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, prospective investors should carefully consider the information set forth under the caption "Risk Factors" in addition to the other information set forth herein and elsewhere in our other public filings with the Securities and Exchange Commission.

Company Overview

Brainstorm Cell Therapeutics Inc. ("Brainstorm" or the "Company") is a leading company developing stem cell therapeutic products based on breakthrough technologies enabling the in-vitro differentiation of bone marrow stem cells to neural-like cells. We aim to become a leader in adult stem cell transplantation for neurodegenerative diseases. Our focus is on utilizing the patient's own bone marrow stem cells to generate neuron-like cells that may provide an effective treatment initially for ALS, PD and Multiple Sclerosis.

Our core technology was developed in collaboration with prominent neurologist, Prof. Eldad Melamed, the former head of Neurology of the Rabin Medical Center and member of the Scientific Committee of the Michael J. Fox Foundation for Parkinson's Research, and expert cell biologist Prof. Daniel Offen, of the Felsenstein Medical Research Center of Tel Aviv University.

The Company's team is among the first to demonstrate creation of neurotrophic-factor secreting cells (glial cells) from in-vitro differentiated bone marrow cells that produce neurotrophic factors ("NTF") including GDNF, BDNF, NGF and IGF-1.

The team is also among the first to have successfully demonstrated release of neurotrophic factors from in-vitro differentiated bone marrow cells. Moreover, in research conducted by this team, implantation of these differentiated cells into brains of animal models that had been induced to Parkinsonian behavior markedly improved their symptoms.

Our aim is to provide neural stem cell transplants that maintain, preserve and restore the damaged and remaining dopaminergic cells in the patient's brain, protecting them from further degeneration.

The Company holds exclusive worldwide rights to commercialize the technology, through a licensing agreement with Ramot, the technology transfer company of Tel Aviv University. The agreement also provides for further research, funded by Brainstorm, to be performed by Prof. Melamed, Prof. Offen and members of their research team at the Felsenstein Medical Research Center. The results of this research are licensed to us under the terms of the license agreement.

As a result of limited cash resources and the desire to take a faster path to clinical trials, in the fourth quarter of 2008 the Company determined to focus all of its efforts on ALS, and we are currently not allocating resources towards PD or other neurodegenerative diseases.

On February 17, 2010, a wholly owned Israeli subsidiary of the Company entered into a series of agreements with Hadasit Medical Research Services and Development Ltd., a subsidiary of the Hadassah Medical Organization ("Hadassah") to conduct clinical trials to evaluate the safety and tolerability of the Company's treatment using mesenchymal bone marrow stem cells secreting neurotrophic factors in up to 26 ALS patients at the Hadassah Medical Center. Hadassah's Institutional Review approved the commencement of such clinical trials, pending approval by the Israel's Ministry of Health Review Board.

We are going to begin the process of seeking regulatory approval from regulatory agencies in the U.S and Europe. Our efforts are directed at the development of the technology from the lab to the clinic with the following main objectives:

- Developing the cell differentiation process according to Food and Drug Administration ("FDA") and the European agency for evaluation of medical product ("EMA") guidelines;
- Demonstrating safety and efficacy in animals and in human patients; and
- Setting up centralized facilities to provide the therapeutic products and services for transplantation in patients.

#### Recent Developments

##### Investment of \$250,000

On January 25, 2010, we entered into a Subscription Agreement with Reytalon Ltd, pursuant to which the Company issued (i) 1,250,000 shares of common stock of the Company to Reytalon Ltd at a purchase price of \$0.20 per share for total gross proceeds of \$250,000 paid to the Company and (ii) a warrant to purchase up to an additional 1,250,000 shares of the Company's common stock at an exercise price of \$0.50 per share, which warrant is exercisable until January 24, 2012.



#### Hadassah

On February 17, 2010, a wholly owned Israeli subsidiary of the Company entered into a series of agreements with Hadassah, as described above. Intellectual property generated through the study will be owned by BrainStorm. Hadassah will be entitled to use the intellectual property generated through the study for non-commercial purposes. All existing intellectual property of Brainstorm and Hadassah shall be retained by them.

#### Investment of \$1,500,000

On February 17, 2010, the Company entered into Securities Purchase Agreements with three individual investors (collectively, the "Investors"), pursuant to which the Company agreed to issue to the Investors an aggregate of 6,000,000 shares of common stock and two-year warrants to purchase 3,000,000 shares of common stock with an exercise price of \$0.50 in exchange for \$1,500,000.

On March 2, 2010, the transaction involving the sale of the shares of common stock and warrants was completed, and the 6,000,000 shares of common stock and warrants or purchase 3,000,000 shares of common stock were issued in exchange for the investment of \$1,500,000 in the Company.

#### Results of Operations

The Company has been a development stage company since its inception. For the period from inception (September 22, 2000) until March 31, 2010, the Company has not earned any revenues from operations. The Company does not expect to earn revenues from operations until 2013. In addition, the Company has incurred operating costs and expenses of approximately \$609,000 during the three months ending March 31, 2010, and approximately \$35,548,000 for the period from inception (September 22, 2000) until March 31, 2010. Operating expenses incurred since inception were approximately \$13,624,000 for general and administrative expenses and \$21,924,000 for research and development costs.

#### Research and Development, net:

Research and development expenses, net for the three months ended March 31, 2010 and 2009 were \$239,000 and \$289,000, respectively. The decrease of \$50,000 in research and development expenses is primarily due to the fact that the Company recorded \$95 as accrued expenses in the fiscal quarter ended March 31, 2009 due to the agreement with Ramot. Apart from the recordation of accrued expenses, research and development expenses increased due to expenses related to preparation for clinical trials at the Hadassah Medical Center.

#### General and Administrative

General and administrative expenses for the three months ended March 31, 2010 and 2009 were \$370,000 and \$251,000, respectively. The increase of \$119,000 in general and administrative expenses is primarily due to the increase in (i) stock-based compensation expenses and (ii) expenses related to public relations and advisors as part of the Company's efforts to raise funds.

#### Financial Expenses

Financial expenses increased by \$32,000 to expenses of \$6,000 for the three months ended March 31, 2010 from income of \$26,000 for the three months ended March 31, 2009.

The increase in financial expenses is primarily attributable to the exchange differentials derived from the changes in the exchange rate between the New Israeli Shekel to U.S. dollar. While in the three months ended March 31, 2009, the effect of the exchange differentials contributed finance incomes, in the three months ended March 31, 2010, the effect was negative.

## Net Loss

Net loss for the three months ended March 31, 2010 was \$615,000, as compared to a net loss of \$514,000 for the three months ended March 31, 2009. Net loss per share for the three months ended March 31, 2010 was \$0.01, which was the same as the net loss per share of \$0.01 for the three months ended March 31, 2009. The increase in the net loss is mainly due to (i) expenses related to preparation for clinical trials at Hadassah Medical Center (ii) expenses related to public relations and advisors as part of the Company's efforts to raise funds, (iii) the effect of the exchange differentials between the U.S. dollar and the New Israeli Shekel and (iv) an increase in stock-based compensation expenses. The weighted average number of shares of common stock used in computing basic and diluted net loss per share for the three months ended March 31, 2010 was 81,560,155, compared to 55,241,418 for the three months ended March 31, 2009. This increase was due to (i) the issuance of shares in the private placements, (ii) the conversion of convertible loans and notes, (iii) the exercise of warrants and (iv) the issuance of shares to service providers.

## Liquidity and Capital Resources

The Company has financed its operations since inception primarily through private sales of its common stock and warrants and the issuance of convertible promissory notes. At March 31, 2010, we had \$1,364,000 in total current assets and \$1,863,000 in total current liabilities.

Net cash used in operating activities was \$598,000 for the three months ended March 31, 2010. Cash used for operating activities in the three months ended March 31, 2010 was primarily for Company operations.

Net cash used in investing activities was \$4,000 for the three months ended March 31, 2010. Cash used for investing activities in the three months ended March 31, 2010 was primarily for purchasing of equipment.

Net cash provided by financing activities was \$1,808,000 for the three months ended March 31, 2010 and is primarily attributable to funds received from four private investors in return for issuance of shares of common stock and warrants (which are described in more detail below).

Our material cash needs for the next 12 months include the payments due under an agreement with Hadassah to conduct clinical trials in ALS patients, under which we must pay to Hadassah an amount of (i) up to \$38,190 per patient (up to \$992,880 in the aggregate) and (ii) \$31,250 per month for rent and the operation of a clean room for cell differentiation for Hadassah's clinical trials.

Our other material cash needs for the next 12 months will include payments of/to (i) employee salaries, (ii) patents, (iii) construction fees for facilities to be used in our research and development and (iv) fees to our consultants and legal advisors.

We had a licensing agreement with Ramot under which we owed approximately \$95,000 per quarter. However, on December 24, 2009, we entered into a Letter Agreement (the "Letter Agreement") with Ramot, pursuant to which, among other things, Ramot agreed to: (i) release the Company from its obligation to fund three years of additional research (which would have totaled \$1,140,000); and (ii) accept shares of common stock of the Company in lieu of \$272,000 in past-due amounts. Pursuant to the Letter Agreement, the Company agreed, among other things, to: (i) reimburse Ramot for outstanding patent-related expenses; and (ii) abandon its rights in certain patents of Ramot.

On July 2, 2007, we entered into a subscription agreement with ACCBT Corp., pursuant to which we agreed to sell and issue (i) up to 27,500,000 shares of our common stock for an aggregate subscription price of up to \$5.0 million, and (ii) for no additional consideration, warrants to purchase up to 30,250,000 shares of our common stock. Subject to certain closing conditions, separate closings of the purchase and sale of the shares and the warrants were scheduled to

take place from August 30, 2007 through November 15, 2008.

On August 18, 2009, we entered into an amendment to the subscription agreement with ACCBT Corp. (the "Amendment"). Pursuant to the Amendment: (i) ACCBT Corp. agreed to invest the remaining amount (approximately \$1,000,000) under the subscription agreement at a price per share of \$0.12 (instead of a price per share of \$0.1818) in monthly installments of not less than \$50,000 beginning in August 2009; (ii) the exercise price of the final 10,083,334 warrants decreased from \$0.36 to \$0.29; (iii) the expiration date of all warrants extended from November 5, 2011 to November 5, 2013; and (iv) the purchase price per share of all 27,500,000 shares purchased pursuant to the subscription agreement decreased from \$0.1818 to \$0.12, which repricing applied retroactively to all shares purchased by ACCBT Corp. prior to the Amendment.

On January 25, 2010, we entered into a Subscription Agreement with Reytalon Ltd, pursuant to which the Company issued 1,250,000 shares of common stock of the Company to Reytalon Ltd at a purchase price of \$0.20 per share for total gross proceeds of \$250,000 paid to the Company and a warrant to purchase up to an additional 1,250,000 shares of the Company's common stock at an exercise price of \$0.50 per share and which is exercisable until January 24, 2012.

On February 17, 2010, we entered into Securities Purchase Agreements with three individual investors, pursuant to which the Company agreed to issue to the Investors an aggregate of 6,000,000 shares of common stock and two-year warrants to purchase 3,000,000 shares of common stock with an exercise price of \$0.50 in exchange for \$1,500,000. On March 2, 2010, the transaction was completed and the Company received the \$1,500,000 investment.

We will need to raise substantial additional capital in order to meet our anticipated expenses. If we are not able to raise substantial additional capital, we may not be able to continue to function as a going concern and we may have to cease operations. Even if we obtain funding sufficient to continue functioning as a going concern, we will be required to raise a substantial amount of capital in the future in order to reach profitability and to complete the commercialization of our products. Our ability to fund these future capital requirements will depend on many factors, including the following:

- our ability to obtain funding from third parties, including any future collaborative partners;
- the scope, rate of progress and cost of our clinical trials and other research and development programs;
  - the time and costs required to gain regulatory approvals;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the costs of filing, prosecuting, defending and enforcing patents, patent applications, patent claims, trademarks and other intellectual property rights;
  - the effect of competition and market developments; and
  - future pre-clinical and clinical trial results.



### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenue and expenses during the reporting periods. We continually evaluate our judgments, estimates and assumptions. We base our estimates on the terms of underlying agreements, our expected course of development, historical experience and other factors we believe are reasonable based on the circumstances, the results of which form our management's basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

There were no significant changes to our critical accounting policies during the quarter ended March 31, 2010. For information about critical accounting policies, see the discussion of critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

### Off Balance Sheet Arrangements

We have no off balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This information has been omitted as the Company qualifies as a smaller reporting company.

### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer, who also currently serves as our Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that, as a result of the material weaknesses in our internal control over financial reporting described below, our disclosure controls and procedures were not effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Internal Control Over Financial Reporting

Management identified the following material weaknesses in its assessment of the effectiveness of internal control over financial reporting as of December 31, 2009, which continued to exist as of March 31, 2010:

- The Company did not maintain effective controls over certain aspects of the financial reporting process because we lacked a sufficient complement of

personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with the Company's financial reporting requirements. Specifically, our former Chief Financial Officer handled all accounting issues of the Company alone as the Company terminated the Company's accountant as part of the downsizing of the Company's staff.

- Due to the decrease in the Company's activities and limited cash resources, the Company manually inputs all purchase and order activities and confirmation process instead of via an ERP system.

Since December 31, 2009, the Company has engaged a part-time accountant.

In addition, on March 21, 2010, the Company's Chief Financial Officer, David Stolick, tendered his resignation to the Company in order to pursue other opportunities. Mr. Stolick's resignation was effective as of April 6, 2010. The Company is currently searching for a successor to Mr. Stolick. As of the date of the filing of this quarterly report, our Chief Executive Officer was performing the duties of the Principal Financial Officer of the Company.

Nevertheless, based on a number of factors, including the performance of additional procedures performed by management designed to ensure the reliability of our financial reporting, our Chief Executive Officer and Principal Financial Officer believes that the consolidated financial statements included with this quarterly report fairly present, in all material respects, our financial position, results of operations, and cash flows as of the dates, and for the periods, presented, in conformity with U.S. GAAP.

#### Management's Remediation Initiatives

The Company is currently searching for a new Chief Financial Officer. In addition, the Company has engaged a new part-time accountant and plans to develop policies and procedures for training of personnel or external advisers to verify that we have a sufficient number of personnel with knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting and U.S. GAAP requirements. Where necessary, we will supplement personnel with qualified external advisors. Additionally, where appropriate, we plan to identify training on accounting principles and procedures that would benefit our accounting and finance personnel.

#### Changes in Internal Control Over Financial Reporting

Other than as described above, no changes in our internal controls over financial reporting were identified during the quarter ended March 31, 2010 that materially affected, or are reasonably likely to materially affect, such internal control over financial reporting other than those remedial actions disclosed above.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings.

For a description of legal proceedings affecting the Company refer to Part I, Item 3, "Legal Proceedings" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. There were no material developments to the legal proceedings affecting the Company in the fiscal quarter ended March 31, 2010.

From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business. We currently are not a party to any material legal proceedings, other than as described in Part I, Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, the adverse outcome of which, in management's opinion, would have a material adverse effect on our business, results of operation or financial condition.

### Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors previously disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There have been no material

changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 5. Other Information.

During the quarter ended March 31, 2010, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

On April 30, 2010, Moshe Lion notified the Board of Directors of the Company he would not stand for re-election at the Company's annual meeting of stockholders due to other commitments.

Item 6. Exhibits.

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with or incorporated by reference in this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BRAINSTORM CELL THERAPEUTICS INC.

May 17, 2010

By:

/s/ Rami Efrati

Name: Rami Efrati

Title: Chief Executive Officer (Principal Executive Officer) and Principal Financial Officer

EXHIBIT INDEX

| Exhibit<br>Number | Description   |
|-------------------|---|
| 10.1              | Agreement dated April 13, 2010 by and among the Company, Avi Israeli and Hadasit Medical Research Services and Development Ltd. is incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 15, 2010 (File No. 333-61610). |
| 31.1              | Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1              | Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |