

BRAINSTORM CELL THERAPEUTICS INC

Form 10-Q

November 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 333-61610

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

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

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

Yes ☐ No ☒

As of November 9, 2011, the number of shares outstanding of the registrant's common stock, \$0.00005 par value per share, was 125,719,309.

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# TABLE OF CONTENTS

|                                                                                               | Page<br>Number |
|-----------------------------------------------------------------------------------------------|----------------|
| PART I                                                                                        | 3              |
| Item 1. Financial Statements                                                                  | 3              |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 35             |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 40             |
| Item 4. Controls and Procedures                                                               | 40             |
| PART II                                                                                       | 41             |
| Item 1. Legal Proceedings                                                                     | 41             |
| Item 1A. Risk Factors                                                                         | 41             |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | 41             |
| Item 6. Exhibits                                                                              | 41             |

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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 SEPTEMBER 30, 2011

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2011

UNAUDITED

U.S. DOLLARS IN THOUSANDS

INDEX

Page

|                                                            |         |
|------------------------------------------------------------|---------|
| Consolidated Balance Sheets                                | 5       |
| Consolidated Statements of Operations                      | 6       |
| Statements of Changes in Stockholders' Equity (Deficiency) | 7 – 15  |
| Consolidated Statements of Cash Flows                      | 16      |
| Notes to Consolidated Financial Statements                 | 17 - 34 |

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

(Except share data)

|                                                                                                                                                                                                                                       | September<br>30,<br>2011<br>Unaudited | December<br>31,<br>2010<br>Audited |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                         |                                       |                                    |
| Current Assets:                                                                                                                                                                                                                       |                                       |                                    |
| Cash and cash equivalents                                                                                                                                                                                                             | \$2,390                               | \$93                               |
| Accounts receivable                                                                                                                                                                                                                   | 369                                   | 427                                |
| Prepaid expenses                                                                                                                                                                                                                      | 38                                    | 59                                 |
| Total current assets                                                                                                                                                                                                                  | 2,797                                 | 579                                |
| Long-Term Investments:                                                                                                                                                                                                                |                                       |                                    |
| Prepaid expenses                                                                                                                                                                                                                      | 9                                     | 1                                  |
| Severance pay fund                                                                                                                                                                                                                    | 98                                    | 90                                 |
| Total long-term investments                                                                                                                                                                                                           | 107                                   | 91                                 |
| Property And Equipment, Net                                                                                                                                                                                                           | 341                                   | 419                                |
| Total assets                                                                                                                                                                                                                          | \$3,245                               | \$1,089                            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</b>                                                                                                                                                                              |                                       |                                    |
| Current Liabilities:                                                                                                                                                                                                                  |                                       |                                    |
| Trade payables                                                                                                                                                                                                                        | \$159                                 | \$307                              |
| Accrued expenses                                                                                                                                                                                                                      | 555                                   | 508                                |
| Other accounts payable                                                                                                                                                                                                                | 94                                    | 471                                |
| Short-term convertible note                                                                                                                                                                                                           | -                                     | 137                                |
| Total current liabilities                                                                                                                                                                                                             | 808                                   | 1,423                              |
| Accrued Severance Pay                                                                                                                                                                                                                 | 101                                   | 125                                |
| Total liabilities                                                                                                                                                                                                                     | 909                                   | 1,548                              |
| Stockholders' Equity (Deficiency):                                                                                                                                                                                                    |                                       |                                    |
| Stock capital: (Note 8)                                                                                                                                                                                                               | 6                                     | 5                                  |
| Common stock of \$0.00005 par value - Authorized: 800,000,000 shares at September 30, 2011 and December 31, 2010; Issued and outstanding: 125,619,309 and 95,832,978 shares at September 30, 2011 and December 31, 2010 respectively. |                                       |                                    |
| Additional paid-in-capital                                                                                                                                                                                                            | 44,986                                | 39,696                             |
| Deficit accumulated during the development stage                                                                                                                                                                                      | (42,656 )                             | (40,160 )                          |

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|                                                         |         |         |
|---------------------------------------------------------|---------|---------|
| Total stockholders' equity (deficiency)                 | 2,336   | (459 )  |
| Total liabilities and stockholders' equity (deficiency) | \$3,245 | \$1,089 |

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

|                                                                                                      | Nine months<br>ended September 30 |            | Three months<br>ended September 30 |            | Period<br>from<br>September<br>22, 2000<br>(inception<br>date)<br>through<br>September<br>30,<br>2011 |
|------------------------------------------------------------------------------------------------------|-----------------------------------|------------|------------------------------------|------------|-------------------------------------------------------------------------------------------------------|
|                                                                                                      | 2011                              | 2010       | 2011                               | 2010       | Unaudited                                                                                             |
|                                                                                                      | Unaudited                         |            | Unaudited                          |            |                                                                                                       |
| Operating costs and expenses:                                                                        |                                   |            |                                    |            |                                                                                                       |
| Research and development, net                                                                        | \$1,032                           | \$958      | \$176                              | \$371      | \$23,762                                                                                              |
| General and administrative                                                                           | 1,459                             | 902        | 564                                | 264        | 16,257                                                                                                |
| Total operating costs and expenses                                                                   | 2,491                             | 1,860      | 740                                | 635        | 40,019                                                                                                |
| Financial expenses (income), net                                                                     | 132                               | 49         | (46)                               | 45         | 2,528                                                                                                 |
| Other income                                                                                         | 132                               | -          | -                                  | -          | 132                                                                                                   |
| Operating loss                                                                                       | 2,491                             | 1,909      | 694                                | 680        | 42,415                                                                                                |
| Taxes on income                                                                                      | 5                                 | 24         | -                                  | 24         | 77                                                                                                    |
| Loss from continuing operations                                                                      | 2,496                             | 1,933      | 694                                | 704        | 42,492                                                                                                |
| Net loss from discontinued operations                                                                | -                                 | -          | -                                  | -          | 164                                                                                                   |
| Net loss                                                                                             | \$2,496                           | \$1,933    | \$694                              | \$704      | 42,656                                                                                                |
| Basic and diluted net loss per share from continuing operations                                      | \$0.02                            | \$0.02     | \$0.01                             | \$0.01     |                                                                                                       |
| Weighted average number of shares outstanding used in computing basic and diluted net loss per share | 118,106,658                       | 87,592,831 | 124,596,807                        | 91,606,177 |                                                                                                       |

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 | Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>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                              | (10,062,000)           | * -    | * -                              | -                                            | -                                                            | -                                                |
| Contribution of capital                                                               | -                      | * -    | 15                               | -                                            | -                                                            | 15                                               |
| Net loss                                                                              | -                      | -      | -                                | -                                            | (73 )                                                        | (73 )                                            |
| Balance as of March 31, 2004                                                          | 10,238,000             | \$1    | \$131                            | \$ -                                         | \$ (163 )                                                    | \$ (31 )                                         |

\* Represents an amount less than \$1.

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

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

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

U.S. dollars in thousands

(Except share data)

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

\* Represents an amount less than \$1.

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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>Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>based<br>compensation | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficiency) |
|--------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|----------------------------------|----------------------------------------------|--------------------------------------------------------------|--------------------------------------------------|
| 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                                              |

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|                              |            |      |           |             |              |             |
|------------------------------|------------|------|-----------|-------------|--------------|-------------|
| Net loss                     | -          | -    | -         | -           | (3,317 )     | (3,317 )    |
| Balance as of March 31, 2006 | 22,854,587 | \$ 1 | \$ 15,803 | \$ (1,395 ) | \$ (22,320 ) | \$ (7,911 ) |

\* Represents an amount less than \$1.

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

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

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

U.S. dollars in thousands

(Except share data)

|                                                                                                                   | Common stock<br>Number | Common stock<br>Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>based<br>compensation | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficiency) |
|-------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|----------------------------------|----------------------------------------------|--------------------------------------------------------------|--------------------------------------------------|
| Balance as of March 31,<br>2006                                                                                   | 22,854,587             | \$ 1                   | \$15,803                         | \$ (1,395 )                                  | \$ (22,320 )                                                 | \$ (7,911 )                                      |
| Elimination of deferred<br>stock compensation due<br>to implementation of<br>ASC 718-10 (formerly<br>SFAS 123(R)) | -                      | -                      | (1,395 )                         | 1,395                                        | -                                                            | -                                                |
| Stock-based<br>compensation related to<br>shares and options<br>granted to directors and<br>employees             | 200,000                | * -                    | 1,168                            | -                                            | -                                                            | 1,168                                            |
| Reclassification due to<br>application of ASC<br>815-40-25 (formerly<br>EITF 00-19)                               | -                      | -                      | 7,191                            | -                                            | -                                                            | 7,191                                            |
| Stock-based<br>compensation related to<br>options and shares<br>granted to service<br>providers                   | 1,147,225              | -                      | 453                              | -                                            | -                                                            | 453                                              |
| Warrants issued to<br>convertible note holder                                                                     | -                      | -                      | 11                               | -                                            | -                                                            | 11                                               |
| Warrants issued to loan<br>holder                                                                                 | -                      | -                      | 110                              | -                                            | -                                                            | 110                                              |
| Beneficial conversion<br>feature related to<br>convertible bridge loans                                           | -                      | -                      | 1,086                            | -                                            | -                                                            | 1,086                                            |
| Net loss                                                                                                          | -                      | -                      | -                                | -                                            | (3,924 )                                                     | (3,924 )                                         |
| Balance as of December<br>31, 2006                                                                                | 24,201,812             | \$ 1                   | \$24,427                         | \$ -                                         | \$ (26,244 )                                                 | \$ (1,816 )                                      |

\* Represents an amount less than \$1.

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



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

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

U.S. dollars in thousands

(Except share data)

|                                                                                                    | Common stock<br>Number | Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>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>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 )                                      |

\* Represents an amount less than \$1.

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

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

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

U.S. dollars in thousands

(Except share data)

|                                                                                                   | Common stock<br>Number | Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>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>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                                                |
| Stock issued for private<br>placement at \$0.1818 per unit,<br>net of finder's fee                | 8,625,000              | 1      | 1,499                            | -                                            | -                                                            | 1,500                                            |
| Subscription of shares<br>for private placement at<br>\$0.1818 per unit                           | -                      | -      | 281                              | -                                            | -                                                            | 281                                              |
| Net loss                                                                                          | -                      | -      | -                                | -                                            | (3,472 )                                                     | (3,472 )                                         |
| Balance as of December 31,<br>2008                                                                | 55,241,418             | \$3    | \$33,881                         | \$ -                                         | \$ (35,960 )                                                 | \$ (2,076 )                                      |

\* Represents an amount less than \$1.

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

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

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

U.S. dollars in thousands

(except share data)

|                                                                                                   | Common stock<br>Number | Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>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.

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

\* Represents an amount less than \$1.

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

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

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

U.S. dollars in thousands

(except share data)

|                                                                                                   | Common stock<br>Number | Amount | Additional<br>paid-in<br>capital | Deferred<br>Stock -<br>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>2010                                                                | 95,832,978             | \$5    | \$39,696                         | \$ -                                         | \$ 40,160 )                                                  | \$(459 )                                         |
| Stock-based compensation<br>related to options and stock<br>granted to service providers          | 590,870                | -      | 246                              | -                                            | -                                                            | 246                                              |
| Stock-based compensation<br>related to stock and options<br>granted to directors and<br>employees | 1,400,040              | -      | 786                              | -                                            | -                                                            | 786                                              |
| Conversion of convertible<br>note                                                                 | 755,594                | -      | 140                              | -                                            | -                                                            | 140                                              |
| Exercise of options                                                                               | 1,432,061              | -      | 228                              | -                                            | -                                                            | 228                                              |
| Exercise of warrants                                                                              | 946,834                | -      | 265                              | -                                            | -                                                            | 265                                              |
| Issuance of shares for private<br>placement                                                       | 14,160,933             | 1      | 3,601                            |                                              |                                                              | 3,602                                            |
| Issuance of shares on account<br>of previously subscribed<br>shares (See also Note 8B.1.f)        | 10,499,999             | -      | 24                               | -                                            | -                                                            | 24                                               |
| Net loss                                                                                          | -                      | -      | -                                | -                                            | (2,496 )                                                     | (2,496 )                                         |
| Balance as of September 30,<br>2011                                                               | 125,619,309            | \$6    | \$44,986                         | \$ -                                         | \$ (42,656 )                                                 | \$ 2,336                                         |

\* Represents an amount less than \$1.

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

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

|                                                                             | Nine months<br>ended September 30 |            | Period from<br>September<br>22, 2000<br>(inception<br>date)<br>through<br>September<br>30,<br>2011 |
|-----------------------------------------------------------------------------|-----------------------------------|------------|----------------------------------------------------------------------------------------------------|
|                                                                             | 2011                              | 2010       | 2011                                                                                               |
|                                                                             | Unaudited                         |            | Unaudited                                                                                          |
| Cash flows from operating activities:                                       |                                   |            |                                                                                                    |
| Net loss                                                                    | \$(2,496 )                        | \$(1,933 ) | \$(42,656 )                                                                                        |
| 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                           | 116                               | 126        | 964                                                                                                |
| Severance pay, net                                                          | (32 )                             | 11         | 3                                                                                                  |
| Accrued interest on loans                                                   | 3                                 | -          | 451                                                                                                |
| 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         | 246                               | 111        | 21,283                                                                                             |
| Stock-based compensation related to options granted to employees            | 786                               | 254        | 6,472                                                                                              |
| Decrease (increase) in accounts receivable and prepaid expensed             | 79                                | (26 )      | (407 )                                                                                             |
| Increase (decrease) in trade payables                                       | (148 )                            | (70 )      | 632                                                                                                |
| Increase (decrease) in accrued expenses and other accounts payable          | (306 )                            | 4          | 1,155                                                                                              |
| Erosion of restricted cash                                                  | -                                 | -          | (6 )                                                                                               |
| Net cash used in continuing operating activities                            | (1,752 )                          | (1,523 )   | (10,876 )                                                                                          |
| Net cash used in discontinued operating activities                          | -                                 | -          | (23 )                                                                                              |
| Total net cash used in operating activities                                 | (1,752 )                          | (1,523 )   | \$(10,899 )                                                                                        |
| Cash flows from investing activities:                                       |                                   |            |                                                                                                    |
| Purchase of property and equipment                                          | (38 )                             | (2 )       | (1,123 )                                                                                           |
| Restricted cash                                                             | -                                 | -          | 6                                                                                                  |
| Investment in lease deposit                                                 | (8 )                              | -          | (9 )                                                                                               |
| Net cash used in continuing investing activities                            | (46 )                             | (2 )       | (1,126 )                                                                                           |
| Net cash used in discontinued investing activities                          | -                                 | -          | (16 )                                                                                              |
| Total net cash used in investing activities                                 | (46 )                             | (2 )       | (1,142 )                                                                                           |
| Cash flows from financing activities:                                       |                                   |            |                                                                                                    |
| Proceeds from issuance of Common stock, net                                 | 3,602                             | 2,175      | 12,319                                                                                             |

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|                                                          |         |       |         |
|----------------------------------------------------------|---------|-------|---------|
| Proceeds from loans, notes and issuance of warrants, net | -       | -     | 2,061   |
| Credit from bank                                         | -       | (5 )  | -       |
| Proceeds from exercise of warrants and options           | 493     | 103   | 609     |
| Repayment of short-term loans                            | -       | -     | (601 )  |
| Net cash provided by continuing financing activities     | 4,095   | 2,273 | 14,388  |
| Net cash provided by discontinued financing activities   | -       | -     | 43      |
| Total net cash provided by financing activities          | 4,095   | 2,273 | 14,431  |
| Increase in cash and cash equivalents                    | 2,297   | 748   | 2,390   |
| Cash and cash equivalents at the beginning of the period | 93      | 1     | -       |
| Cash and cash equivalents at end of the period           | \$2,390 | \$749 | \$2,390 |

Non-cash financing activities:

|                                                                                                                 |     |     |  |
|-----------------------------------------------------------------------------------------------------------------|-----|-----|--|
| Conversion of convertible loan and convertible note to shares Conversion of trade payable to Common Stock \$ 84 | 140 | 324 |  |
| Conversion of other accounts payable to Common Stock                                                            | 24  |     |  |



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE-GENERAL

1

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

E. 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.

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

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

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).

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

On February 23, 2011, the Company submitted, to the MOH, all the required documents. Following approval of the Israel Ministry of Health (MOH), a Phase I/II clinical study for ALS patients using the Company's autologous

NurOwn™ stem cell therapy was initiated in June 2011.

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

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

Notes to the financial statements

NOTE-GENERAL (Cont.)

1

GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the nine months ended on September 30, 2011, resulted in a net loss of \$2,496. The Company's balance sheet reflects accumulated deficit of \$42,656. These conditions, together with the fact that the Company is a development stage Company and has no revenues nor are revenues expected in the near future, raise substantial doubt about the Company's ability to continue to operate as a going concern. The Company's ability to continue operating as a "going concern" is dependent on several factors, among them is its ability to raise sufficient additional working capital.

In 2009 the Company decided to focus only on the effort to commence clinical trials in ALS amyotrophic lateral sclerosis (ALS) in 2011.

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

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

NOTE-SIGNIFICANT ACCOUNTING POLICIES

2

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

NOTE-UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3

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 September 30, 2011 and for the nine 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 nine months ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

NOTE-RESEARCH AND LICENSE AGREEMENT

4

The Company has a Research and License Agreement, as amended and restated, with Ramot. The Company obtained a waiver and release from Ramot pursuant to which Ramot agreed to an amended payment schedule regarding the Company's payment obligations under the Research and License Agreement and waived all claims against the Company resulting from the Company's previous defaults and non-payment under the Research and License Agreement. The waiver and release amended and restated the original payment schedule under the original agreement providing for payments during the initial research period and additional payments for any extended research period.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE-RESEARCH AND LICENSE AGREEMENT (Cont.)

4

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

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

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

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

During the first quarter of 2010, the Company entered into an agreement with Hadassah Medical Centre to conduct clinical trials in up to 26 ALS patients in 2011.

On June 27, 2011, the Company entered into the Amendment (the "Amendment") to the Clinical Trial Agreement. According to the Amendment the total payment due to Hadassah decreased from \$992,880 to \$773,400 and the termination provisions were changed so that only the Company may terminate the agreement upon 60 days' notice.

NOTE-CONSULTING AGREEMENTS

5

- A. On July 8, 2004, the Company entered into consulting agreements with each of Prof. Eldad Melamed and Dr. Daniel Offen (together, the "Consultants"), under which the Consultants provide the Company scientific and medical consulting services in consideration for a monthly payment of \$6 each. In addition, the Company granted each of the Consultants, a fully vested warrant to purchase 1,097,215 shares of Common Stock at an exercise price of \$0.01 per share. The warrants issued pursuant to the

agreements were issued to the Consultants effective as of November 4, 2004. Each of the warrants was exercisable for a seven-year period beginning on November 4, 2005. As of September 2011, all the above warrants had been exercised.

B. On December 16, 2010, the Company granted to the Consultants 1,100,000 shares of the Company's Common Stock for services rendered through December 31, 2010. Related compensation in the amount of \$220 is recorded as research and development expense.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE-CONSULTING AGREEMENTS (Cont.)

5

C. On June 27, 2011, the Company granted to one of the Consultants 400,000 shares of Common Stock of the Company for services rendered through December 31, 2009 in the amount of \$192.

D. As of September 30, 2011, the Company had a total liability of \$81 for services rendered by the Consultants under the abovementioned agreements.

NOTE-SHORT-TERM CONVERTIBLE NOTE

6

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

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

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

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

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

NOTE-SHORT-TERM LOANS

7

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

In July 2011, the Company issued to the lender an additional 309,977 shares of Common Stock of the Company with regard to the above conversion.

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

#### NOTE-STOCK CAPITAL

8

A. The rights of Common Stock are as follows:

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

20

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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

B. Issuance of shares warrants and options:

1. Private placements:

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

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

| Purchase date     | Purchase price                                         | Number of<br>subscription<br>shares | Number of<br>warrant shares |
|-------------------|--------------------------------------------------------|-------------------------------------|-----------------------------|
| August 30, 2007   | \$1,250 (includes \$250 paid as<br>a convertible loan) | 6,875,000                           | 7,562,500                   |
| 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 |
|-------------------|----|-----|-----------|-----------|

On August 18, 2009, the Company entered into an amendment to the investment agreement with the investor providing for the following:

- (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.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

1. Private placements: (Cont.)

f)(Cont.)

(b) The exercise price of the last 10,083,334 warrants was reduced from an exercise price of \$0.36 per share to \$0.29 per share.

(c) All warrants expire on November 5, 2013 instead of November 5, 2011.

(d) The price per share of the investment agreement decreased from \$0.1818 to \$0.12, therefore the Company adjusted the number of Shares of Common Stock issuable pursuant the investment agreement retroactively and issued to the investor on October 28, 2009 an additional 9,916,667 shares of Common Stock for past investment.

(e) The investor has 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.

On January 18, 2011, the Company and the investor signed an agreement to offset amounts due to the investor, totaling \$20, against the remaining balance of the investment. The Company issued to the investor 10,499,999 shares of Common Stock and a warrant to purchase 4,539,500 shares of the Company's Common Stock at an exercise price of \$0.20 per share

As of September 30, 2011, the Company issued to the investor and its designees an aggregate of 41,666,667 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 20,166,667 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.

In addition, the Company issued an aggregate of 1,250,000 shares of Common Stock to a related party as an introduction fee for the investment.

As of September 30, 2011, the introduction fee was paid in full.

g) In January 2010, the Company issued 1,250,000 units to a private investor for total proceeds of \$250. 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) In February 2010, the Company issued 6,000,000 shares of Common Stock to three investors (2,000,000 to each investor) and warrants to purchase an aggregate of 3,000,000 shares of Common Stock (1,000,000 to each investor) with an exercise price of \$0.5 for aggregate proceeds of \$1,500 (\$500 each) through February 17, 2012.

i) On February 7, 2011, the Company issued 833,333 shares of Common Stock, at a price of \$0.3 per share, and a warrant to purchase 641,026 shares of the Company's Common Stock at an exercise price of \$0.39 per share for one year for total proceeds of \$250.

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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

1. Private placements: (Cont.)

j) On February 23, 2011, the Company entered into an investment agreement, pursuant to which the Company sold 12,815,000 shares of Common Stock, for an aggregate subscription price of \$3.6 million and warrants to purchase up to 19,222,500 shares of Common Stock as follows: warrant to purchase 12,815,000 shares of Common Stock at \$0.5 for two years, and warrants to purchase 6,407,500 shares of Common Stock at \$0.28 for one year.

In July 2011, an investor exercised a warrant to purchase 946,834 shares of Common Stock of the Company at \$0.28 per share, for \$265.

In addition, the Company agreed to pay 10% of the funds received for the distribution services received, out of this amount, 4% was be paid in stock and the remaining 6% in cash. Accordingly, in March 2011, the Company issued 512,600 Common Stock and paid \$231 for the investment banking related to the investment.

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.

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 years. Any options that are canceled or forfeited before expiration become available for future grants.

On June 5, 2008, the Company's stockholders approved an amendment and restatement of 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.

On June 10, 2011, the Company's stockholders approved an amendment and restatement of 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 September 30, 2011, 4,380,769 options are available for future grants.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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 February 6, 2006, the Company entered into an amendment to the Company's option agreement with the Company's former Chief Financial Officer. The amendment changed 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 option is fully vested and expires after 10 years. The compensation related to the option, 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 options.

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.

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 Chief Executive Officer an option to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.87 per share. The option is fully vested



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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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 November 5, 2008, the Company entered into an amendment to the Company's option agreement with the Company's Chief Executive Officer. The amendment changes the exercise price of the option for the purchase 1,000,000 shares 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 former Chief Executive Officer 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 shares subject to the option on each anniversary of the date of grant 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. In February 2011, the former CEO resigned. On July 25 2011 the Company signed a settlement agreement with the former CEO under which 483,333 shares out of the above grant became fully vested exercisable through April 30 2012. Additional \$30 was written as compensation in general and administrative expense.

On June 29, 2009, the Company granted to its former Chief Financial Officer an option to purchase 200,000 shares of Common Stock at an exercise price of \$0.067 per share. The option vested with respect to 1/3 of the shares subject to the option. In connection with the former Chief Financial Officer's resignation, 2/3 of the above shares were cancelled and the remaining 66,667 remain exercisable through April 7, 2011.

On August 31, 2009, the Company granted to two of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.15 per share. Each option vests with respect to 1/3 of the shares subject to the option on each anniversary of the date of grant 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 an 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 shares subject to the option on each anniversary of the date of grant 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-STOCK CAPITAL (Cont.)

8

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 April 13, 2010, the Company, Abraham Israeli and Hadasit Medical Research Services and Development Ltd. ("Hadasit") entered into an Agreement (the "Agreement") pursuant to which Mr. 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. In consideration of the services to be provided by Mr. 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, as follows:

An option for the purchase of 166,666 shares of Common Stock at an exercise price equal to \$0.00005 per share to Mr. 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 will vest and become exercisable in twelve (12) consecutive equal monthly amounts.

In April 2010, the Company granted to Mr. Israeli an option to purchase 166,666 shares of Common Stock at an exercise price equal to \$0.00005 per share. The total compensation related to the option is \$50, which is amortized over the vesting period as general and administrative expense.

On June 27 2011, the Company granted to Mr. Israeli an option to purchase 166,666 shares of Common Stock at an exercise price equal to \$0.00005 per share. The total compensation related to the option is \$48, which is amortized over the vesting period as general and administrative expense.

On June 27 2011, the Company granted to its CEO, an option to purchase 450,000 shares of Common Stock of the Company at \$0.20. The total compensation related to the option is \$177, which is amortized over the vesting period as general and administrative expense.

On June 27 2011, the Company granted to four of its directors an option to purchase 634,999 shares of Common Stock of the Company at \$0.15. The total compensation related to the option is \$287, which is amortized over the vesting period as general and administrative expense.

On August 10 2011, the Company granted to its CEO, an option to purchase 70,000 shares of Common Stock of the Company at \$0.20. The total compensation related to the option is \$26, which was amortized as general and administrative expense.

In the nine months ended September 30 2011, 1,186,600 options were exercised by employees and former employees of the Company for \$228.



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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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<br>September 30, 2011  |                                    |
|----------------------------------------------|----------------------|---------------------------------------------|------------------------------------|
|                                              | Amount of<br>options | Weighted<br>average<br>exercise price<br>\$ | Aggregate<br>intrinsic value<br>\$ |
| Outstanding at beginning of period           | 6,893,024            | 0.183                                       |                                    |
| Granted                                      | 1,321,665            | 0.151                                       |                                    |
| Exercised                                    | (1,186,600 )         | 0.148                                       |                                    |
| Cancelled                                    | (1,989,268 )         | 0.188                                       |                                    |
| Outstanding at end of period                 | 5,038,821            | 0.168                                       | 846,684                            |
| Vested and expected-to-vest at end of period | 3,552,305            | 0.139                                       | 496,528                            |

b) Restricted shares to directors (Cont.):

On May 2, 2006, the Company issued to two of its directors 200,000 restricted shares of common stock (100,000 each). The restrictions on the shares have fully lapsed. The compensation related to the stocks issued amounted to \$104, which was 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 a director 100,000 restricted shares of Common Stock. The restrictions on the shares have fully lapsed. The compensation related to the shares issued amounted to \$47, which was 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 a 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.

In May 2010, based on a board resolution dated June 29, 2009, the Company issued to three of its directors 300,000 (total) restricted shares of Common Stock.

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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

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

b) Restricted shares to directors (Cont.):

The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date.

In May and in June 2010, based on a board resolution dated June 29, 2009, the Company issued to three of its Scientific Advisory Board members and two of its Advisory Board members 500,000 restricted shares of common stock. The restrictions of the shares shall lapse in three annual and equal portions commencing with the grant date.

One December 16, 2010, the Company granted to two of its directors 400,000 shares of Common Stock. Related compensation in the amount of \$80 was recorded as general and administrative costs in 2010. These shares were actually granted in June 2011, and an additional related compensation in the amount of \$112 was recorded as general and administrative expense.

On June 27 2011, the Company granted to two of its directors 476,666 Common Stock, out of which 216,666 are fully vested and 260,000 shares will be vested in 12 equal monthly installments through June 2012. Related compensation in the amount of \$229 will be recorded as general and administrative expense.

On August 22, 2011, the Company entered into an agreement with Chen Schor (the "Executive Director Agreement") pursuant to which the Company granted to Mr. Schor 923,374 Restricted Common Stock of the Company. The shares will vest over a three-year period, If the Company raises \$10,000,000 of proceeds through the issuance of equity securities in a private or public offering after the Grant Date, or enter into a deal with a strategic partner that brings in at least \$10,000,000 of gross proceeds, then 1/3 of the shares will vest upon such event, 1/3 will vest on the second anniversary of the Grant Date and the remaining 1/3 will vest on the third anniversary of the Grant Date. If such capital is not raised as mentioned above, then the shares will vest over 3 years – 1/3 upon each anniversary of the Grant Date. In addition, the Company will pay \$15,000 per quarter to Mr. Schor for his services as an Executive Board Member.

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

Notes to the financial statements

## NOTE-STOCK CAPITAL (Cont.)

8

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

## 3. Shares and warrants to investors and service providers:

## a) Warrants to investors and service providers and investors:

| Issuance date           | Number of<br>warrants<br>issued | Exercised  | Forfeited | Outstanding | Exercise<br>Price \$ | Warrants Exercisable<br>exercisable through |
|-------------------------|---------------------------------|------------|-----------|-------------|----------------------|---------------------------------------------|
| November 2004           | 12,800,845                      | 10,723,197 | 151,803   | 1,925,845   | 0.01                 | November 1,925,845 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                 | - -                                         |
| June 2005               | 30,000                          |            |           | 30,000      | 0.75                 | June 30,000 2015                            |
| August 2005             | 70,000                          |            | 70,000    | -           | 0.15                 | - -                                         |
| September 2005          | 3,000                           | 3,000      |           | -           | 0.15                 | - -                                         |
| September 2005          | 36,000                          |            | 36,000    | -           | 0.75                 | - -                                         |
| September-December 2005 | 500,000                         |            | 500,000   | -           | 1                    | - -                                         |
| December 2005           | 20,000                          | 20,000     |           | -           | 0.15                 | - -                                         |
| December 2005           | 457,163                         | 150,000    |           | 307,163     | 0.15                 | December 307,163 2015                       |
| February 2006           | 230,000                         |            |           | 230,000     | 0.65                 | February 230,000 2016                       |
| February 2006           | 40,000                          |            | 40,000    | -           | 1.5                  | - -                                         |
| February 2006           | 8,000                           |            | 8,000     | -           | 0.15                 | - -                                         |
| February 2006           | 189,000                         | 97,696     | 91,304    | -           | 0.5                  | - -                                         |
| May 2006                | 50,000                          |            |           | 50,000      | 0.0005               | May 50,000 2016                             |
| May -December 2006      | 48,000                          |            | 30,000    | 18,000      | 0.35                 | May - December 48,000 2011                  |
| May -December 2006      | 48,000                          |            | 30,000    | 18,000      | 0.75                 | May - December 48,000 2011                  |
| May 2006                | 200,000                         |            |           | 200,000     | 1                    | May 200,000 2016                            |



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|                |           |         |           |       |           |                     |
|----------------|-----------|---------|-----------|-------|-----------|---------------------|
| June 2006      | 24,000    | 24,000  | -         | 0.15  | -         | June 2011           |
| May 2006       | 19,355    | 19,355  | -         | 0.15  | -         | 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  | -         | March 2010          |
| April 2007     | 33,300    | 33,300  | -         | 0.45  | -         | -                   |
| May 2007       | 250,000   | 250,000 | -         | 0.45  | -         | -                   |
| July 2007      | 500,000   |         | 500,000   | 0.39  | 500,000   | 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  | -         | -                   |
| 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 | 0.29  | 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   | 200,000   | April 2019          |
| October 2009   | 200,000   |         | 200,000   | 0.067 | 66,667    | 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 2012        |
| February 2010  | 125,000   |         | 125,000   | 0.01  | 125,000   | February 2012       |

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|               |            |            |           |            |      |            |               |
|---------------|------------|------------|-----------|------------|------|------------|---------------|
| February 2010 | 3,000,000  |            |           | 3,000,000  | 0.5  | 3,000,000  | February 2012 |
| January 2011  | 4,537,500  |            |           | 4,537,500  | 0.29 | 4,537,500  | November 2013 |
| February 2011 | 641,026    |            |           | 641,026    | 0.39 | 641,026    | February 2012 |
| February 2011 | 6,407,500  | 946,834    |           | 5,460,666  | 0.28 | 6,407,500  | February 2012 |
| February 2011 | 12,815,000 |            |           | 12,815,000 | 0.5  | 12,815,000 | February 2013 |
|               | 77,037,497 | 14,370,727 | 3,931,070 | 58,735,700 |      | 59,735,201 |               |

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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

3. Shares and warrants to investors and service providers:

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 year ended December 31, 2010; weighted average volatility of 140%, risk free interest rates of 2.39%-3.14% dividend yields of 0% and a weighted average life of the options of 5-5.5 years. All grants were through December 31 2010. There were no grants in 2011.

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, was 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, respectively, 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 under which the Company issued to 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. All restrictions on these shares have lapsed.

In March and April 2005, the Company signed an agreement with four members of its Scientific Advisory Board under 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). All restrictions on these shares have lapsed.

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. All restrictions on these shares have lapsed. Related compensation in the amount of \$23 was recorded as general and administrative expense.

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 of Common Stock 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.

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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

3. Shares and warrants to investors and service providers:

b) Shares: (Cont.)

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 to a service provider 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 of Common Stock 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 of Common Stock 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 of Common Stock 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 in lieu of \$63 payable to the legal advisor. Related compensation in the amount of \$63 was recorded as general and administrative expense.

On April 1 and March 31, 2006, the Company issued to its business 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 in lieu of \$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 in lieu of \$15 payable to the service provider. Related compensation in the amount of \$30 was recorded as general and administrative expense. In addition, the Company was 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) was 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 in lieu of \$29 payable to the legal advisor. Related compensation in the amount of \$40 was recorded as general and administrative expense.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

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

b) Shares: (Cont.)

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 were for \$35 payable to the finance advisor for introduction fee of past convertible loans. Related compensation in the amount of \$36 was 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 were 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 were 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 were for \$20 payable to the finance consultant for valuation of options and warrants. Related compensation in the amount of \$20 was recorded as general and administrative expense.

On July 15, 2009, the Company issued to a service provider 357,142 shares of the Company's Common Stock. The shares were for \$25 payable to the service provider for filing services. Related compensation in the amount of \$21 was recorded as general and administrative expense.

On August 10, 2009, the Company issued to a service provider 71,428 shares of the Company's Common Stock. The shares were for \$5 payable to the service provider for IT services. Related compensation in the amount of \$4 was 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 them to a monthly grant of 8,333 shares of the Company's Common Stock. Related compensation in the amount of \$12 was recorded as general and administrative expense.

On January 6, 2010, the Company issued to a service provider 60,000 shares of the Company's Common Stock. The shares were 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 was recorded as general and administrative

expense.

On February 16, 2011, one of the Company's consultants exercised 100,000 warrants to Common Stock for \$33.



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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

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

b) Shares: (Cont.)

On March 5, 2007, the Company issued a \$150 Convertible Promissory Note to a third party. Interest on the note accrued at the rate of 8% per annum for the first year and 10% per annum after the first year. On January 27, 2010, the third party converted the entire accrued principal and interest outstanding under the note, amounting to \$189, into 1,016,109 shares of Common Stock. After the balance sheet date, the Company issued an additional 309,977 Common Stock with regard to conversion of the principal amount.

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

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.

On December 16, 2010, the Company granted to its service provider 83,333 shares of the Company's Common Stock. The shares are for investor and public relation services. Related compensation in the amount of \$40 is recorded as general and administrative expense.

On December 16, 2010, the Company issued to its Chief Medical Advisor 900,000 shares of the Company's Common Stock for services rendered through December 31 2010. Related compensation in the amount of \$180 is recorded as research and development expense (see Note 5B).

On December 16, 2010, the Company issued to its Chief Scientist 200,000 shares of the Company's Common Stock for services rendered through December 31, 2010. Related compensation in the amount of \$40 is recorded as research and development expense (see Note 5B).

On February 18, 2011, the Company's legal advisor converted the entire accrued principal and interest of the Convertible Promissory Note granted on September 15, 2010, totaling \$137, into 445,617 shares of Common Stock.

In 2011, a consultant of the Company exercised 150,000 options for \$15.

On June 27, 2011, the Company granted to its legal advisor 180,000 shares of Common Stock for 2011 legal services. Half of the shares of Common Stock are fully vested and half vest in six equal monthly installments through December 2011. Related compensation in the amount of \$86 is recorded as general and administrative

expense.

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

Notes to the financial statements

NOTE-STOCK CAPITAL (Cont.)

8

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

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

b) Shares: (Cont.)

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:

|                                        | Nine months<br>ended June 30, |        | Period from<br>September<br>22, 2000<br>(inception<br>date)<br>through<br>June 30,<br>2011 |
|----------------------------------------|-------------------------------|--------|--------------------------------------------------------------------------------------------|
|                                        | 2011                          | 2010   | 2011                                                                                       |
|                                        | Unaudited                     |        | Unaudited                                                                                  |
| Research and development               | \$ 130                        | \$ 59  | \$ 17,369                                                                                  |
| General and administrative             | 710                           | 306    | 9,748                                                                                      |
| Financial expenses, net                | 192                           | -      | 248                                                                                        |
| Total stock-based compensation expense | \$ 1,032                      | \$ 365 | \$ 27,365                                                                                  |

NOTE-SUBSEQUENT EVENTS

9

A. In October 2011, a former employee exercised 100,000 options for \$15.

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, 2010. 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 company developing stem cell therapeutic products based on technologies enabling the in-vitro differentiation of bone marrow stem cells into glial-like cells. The Company aims to become a leader in adult stem cell transplantation for neurodegenerative diseases. Our technology entails exploiting the patient's own bone marrow stem cells to generate glial-like cells that may provide in the future an effective treatment for Amyotrophic Lateral Sclerosis ("ALS"), Parkinson's Disease ("PD"), Multiple Sclerosis ("MS") and Spinal Cord Injury.

Our core technology was developed in collaboration with prominent neurologist, Prof. Eldad Melamed, 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 formation of neurotrophic-factor secreting cells (glial-like cells) from in-vitro differentiated bone marrow cells that produce neurotrophic factors ("NTF") including GDNF, BDNF and additional factors. 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 condition.

The Company's aim is to provide neural-supporting stem cell transplants that are expected to maintain, preserve and possibly restore the damaged neurons, 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, Israel.

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

We are currently initiating the clinical developmental stage of our technology and we intend to begin the process of seeking regulatory approval from regulatory agencies in the U.S.

In June 2011, we initiated a Phase I/II clinical study for ALS patients using our autologous NurOwn™ stem cell therapy, after receiving final approval from the Israel Ministry of Health (“MOH”).

In February 2011, the U.S. Food and Drug Administration (“FDA”) granted Orphan Drug designation to the Company’s NurOwn™ autologous adult stem cell product candidate for the treatment of ALS. Orphan Drug status entitles BrainStorm to seven years of marketing exclusivity for NurOwn™ upon regulatory approval, as well as the opportunity to apply for grant funding from the FDA of up to \$400,000 per year for four years to defray costs of clinical trial expenses, tax credits for clinical research expenses and potential exemption from the FDA’s application user fee. Our efforts are directed at:

- Finalizing a GMP compliant production process;
- Demonstrating safety in human ALS patients;
- Setting up centralized facilities to provide the therapeutic products and services for transplantation in patients in the US and in Europe, as part of the clinical development program; and
- Submitting an IND to the FDA.

#### Our Approach

Our research team led by Prof. Melamed and Prof. Offen has shown that human bone marrow mesenchymal stem cells can be expanded and induced to differentiate into two types of brain cells, neuron-like and astrocyte-like, each having different therapeutic potential, as follows:

NurOwn™ program one - Neurotrophic-factors (“NTF”) secreting cells (MSC-NTF) - human bone marrow derived NTF secreting cells for treatment of, ALS, PD and MS. In-vitro differentiation of the expanded human bone marrow derived mesenchymal stem cells in a proprietary medium led to the generation of neurotrophic-factors secreting cells. The in-vitro differentiated cells were shown to express and secrete GDNF, as well as other NTFs, into the growth medium. GDNF is a neurotrophic-factor, previously shown to protect, preserve and even restore neuronal function, particularly dopaminergic cells in PD, but also neuron function in other neurodegenerative pathologies such as ALS and Huntington’s disease. Unfortunately, therapeutic application of GDNF is hampered by its poor brain penetration and stability. Attempting to infuse the protein directly to the brain is impractical and the alternative, using GDNF gene therapy, suffers from the limitations and risks of using viral vectors. Our preliminary results show that our NTF secreting cells, when transplanted into a 6-OHDA lesion PD rat model, show significant efficacy. Within weeks of the transplantation, there was an improvement of more than 50% in the animals’ characteristic disease symptoms.

We have optimized the proprietary processes for induction of differentiation of human bone marrow derived mesenchymal stem cells into differentiated cells that produce NTF (MSC-NTF). The optimization and process development is conducted in Good Manufacturing Practice ("GMP") compliance.

NurOwn™ program (future) two - Dopaminergic neuron-like cells - human bone marrow derived dopamine producing neural cells for restorative treatment in PD. Human bone marrow mesenchymal stem cells were isolated and expanded. Subsequent differentiation of the cell cultures in a proprietary differentiation medium generated cells with neuronal-like morphology and showing protein markers specific to neuronal cells. Moreover, the in-vitro differentiated cells were shown to express enzymes and proteins required for dopamine metabolism, particularly the enzyme tyrosine hydroxylase. Most importantly, the cells produce and release dopamine in-vitro. Further research consisting of implanting these cells in an animal model of PD (6-OHDA induced lesions), showed the differentiated cells exhibit long-term engraftment, survival and function in vivo. Most importantly, such implantation resulted in marked attenuation of their symptoms, essentially reversing their Parkinsonian movements.

Our technology is based on the NurOwn™ products - an autologous cell therapeutic modality, comprising the extraction of the patient bone marrow, which is then processed into the appropriate neuronal-like cells and re-implanted into the patient's muscles, spinal cord or brain. This approach is taken in order to increase patient safety and minimize any chance of immune reaction or cell rejection.

The therapeutic modality will comprise the following:

- Bone marrow aspiration from patient;
- Isolation and expansion of the mesenchymal stem cells;
- Differentiation of the expanded stem cells into neurotrophic-factor secreting cells; and
- Autologous transplantation into the patient into the site of damage.

## Results of Operations

The Company has been a development stage company since its inception. For the period from inception (September 22, 2000) until September 30, 2011, 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 of approximately \$2,491,000 during the nine months ended September 30, 2011, and approximately \$40,019,000 for the period from inception (September 22, 2000) until September 30, 2011. Operating expenses incurred since inception were approximately \$16,257,000 for general and administrative expenses and \$23,762,000 for research and development costs.

## Research and Development, net:

Research and development expenses, net for the nine months ended September 30, 2011 and 2010 were \$1,032,000 and \$958,000, respectively. The research and development expenses for the nine months ended September 30, 2011 include participation from The Office of the Chief Scientist of \$342,000 compared to an immaterial amount in the nine months ended on September 30, 2010. In 2010, the Office of the Chief Scientist did not approve its participation in 2010 until December 2010. Therefore, the Office of the Chief Scientist did not materially participate in the first nine months of 2010.





The increase in research and development expenses for the nine months ended September 30, 2011 from the nine month period ended September 30, 2010 is primarily due to: (i) initiation costs for the clinical trial; (ii) rent of clean rooms from Hadassah; and (iii) the increase in development activities, including sterility validation studies and other tests required for clinical trials.

#### General and Administrative:

General and administrative expenses for the nine months ended September 30, 2011 and 2010 were \$1,459,000 and \$902,000, respectively.

The increase in general and administrative expenses for the nine month period ended September 30, 2011 from the nine month period ended September 30, 2010 is primarily due to an increase of \$404,000 in compensation expenses for options granted to directors and employees and an increase in legal costs.

#### Financial Expenses:

Financial expenses increased by \$83,000 to expenses of \$132,000 for the nine months ended September 30, 2011 from expenses of \$49,000 for the nine months ended September 30, 2010.

The increase in financial expenses is attributable to a \$192,000 expense from conversion of a debt to a consultant to Common Stock of the Company, less financial income attributable mainly to exchange rate differences.

#### Other Income:

Other income is \$132,000 for the nine months ended September 30, 2011, compared to zero for the nine month period ended September 30, 2010, and due to settlement agreements that we reached with third parties, that are lower than the amounts due to the third parties as recorded in the financial statements.

#### Net Loss:

Net loss for the nine months ended September 30, 2011 was \$2,496,000, as compared to a net loss of \$1,933,000 for the nine months ended September 30, 2010. Net loss per share for the nine months ended September 30, 2011 and September 30, 2010 was \$0.02.

The weighted average number of shares of common stock used in computing basic and diluted net loss per share for the nine months ended September 30, 2011 was 118,106,658, compared to 87,592,831 for the nine months ended September 30, 2010.

The increase in the weighted average number of shares of common stock used in computing basic and diluted net loss per share for the nine months ended September 30, 2011 was due to (i) the issuances of shares in private placements, (ii) the conversion of convertible loans, (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 September 30, 2011, we had \$2,797,000 in total current assets and \$808,000 in total current liabilities.

Net cash used in operating activities was \$1,752,000 for the nine months ended September 30, 2011. Cash used for operating activities in the three months ended September 30, 2011 was primarily attributed to cost of clinical trials, rent of clean rooms and materials for clinical trials, payroll costs, rent, outside legal fee expenses and public relations expenses.

Net cash used in investing activities was \$46,000 for the nine months ended September 30, 2011.

Net cash provided by financing activities was \$4,095,000 for the nine months ended September 30, 2011 and is primarily attributable to institutional and private fund raising and from funds received from exercise of options.

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 \$32,225 per patient (up to \$773,400 in the aggregate) and (ii) \$31,500 per month for rent and operation of the GMP facility in anticipation of Hadassah's clinical trials.

Our other material cash needs for the next 12 months will include payments of (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 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 September 30, 2011. 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, 2010.

#### 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 and Chief 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 Chief Financial Officer concluded that, as a result of the material weakness 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 Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### Internal Control Over Financial Reporting

Management identified the following material weakness in its assessment of the effectiveness of internal control over financial reporting as of December 31, 2010, which continued to exist as of September 30, 2011:

- 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.

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 Chief Financial Officer believe 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

We plan 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

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### 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, 2010. There were no additional material developments to the legal proceedings affecting the Company in the fiscal quarter ended September 30, 2011.

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, 2010, 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.

There have not been any material changes from 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, 2010. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, 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, 2010 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.

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

On September 15, 2011, Fidelity Venture Capital Ltd. exercised a warrant, dated as of March 1, 2011, for the purchase of 187,500 shares of the Company's common stock. The exercise price paid upon the exercise of the warrant was \$0.28 per share for a total of \$52,500, which has been received by the Company.

The issuance of the securities described in this Item 2 was effected without registration in reliance on Section 4(2) of the Securities Act of 1933, as amended, as a sale by the Company not involving a public offering. No underwriters were involved with the issuance of such securities.

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.

November 14, 2011

By: /s/ Adrian Harel  
Name: Adrian Harel  
Title: Acting Chief Executive Officer  
(Principal Executive Officer)

November 14, 2011

By: /s/ Liat Sossover  
Name: Liat Sossover  
Title: Chief Financial Officer (Principal  
Financial Officer)



EXHIBIT INDEX

| Exhibit<br>Number | Description                                                                                                                                                                                                                                            |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1              | Executive Director Agreement, dated as of August 22, 2011, by and between the Registrant and Chen Schor is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 23, 2011 (File No. 000-54365). |
| 31.1              | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                            |
| 31.2              | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                            |
| 32.1              | Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                             |
| 32.2              | Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                             |