

BRAINSTORM CELL THERAPEUTICS INC.

Form 10-Q

August 13, 2012

**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 June 30, 2012

☐ 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 000-54365

**BRAINSTORM CELL THERAPEUTICS INC.**

(Exact name of registrant as specified in its charter)

Delaware 20-8133057  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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605 Third Avenue, 34th Floor

New York, NY 10158

(Address of principal executive offices)

(646) 666-3188

(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 ☐

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 August 10, 2012, the number of shares outstanding of the registrant's common stock, \$0.00005 par value per share, was 148,405,612.



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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 June 30, 2012**

**UNAUDITED**

**U.S. DOLLARS IN THOUSANDS**

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF June 30, 2012**

**UNAUDITED**

U.S. DOLLARS IN THOUSANDS

**INDEX**

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BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

(Except share data)

|                                             | June 30,<br>2012 | December<br>31,<br>2011 |
|---------------------------------------------|------------------|-------------------------|
|                                             | Unaudited        | Audited                 |
| <b>ASSETS</b>                               |                  |                         |
| Current Assets:                             |                  |                         |
| Cash and cash equivalents                   | 843              | 1,923                   |
| Accounts receivable                         | 421              | 312                     |
| Prepaid expenses                            | 137              | 69                      |
| Total current assets                        | 1,401            | 2,304                   |
| Long-Term Investments:                      |                  |                         |
| Prepaid expenses                            | 17               | 17                      |
| Severance payment fund                      | 134              | 109                     |
| Total long-term investments                 | 151              | 126                     |
| Property and Equipment, Net                 | 298              | 314                     |
| Total assets                                | 1,850            | 2,744                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                  |                         |
| Current Liabilities:                        |                  |                         |
| Trade payables                              | 515              | 244                     |
| Accrued expenses`                           | 790              | 750                     |
| Other accounts payable                      | 145              | 141                     |
| Total current liabilities                   | 1,450            | 1,135                   |
| Accrued Severance Pay                       | 147              | 121                     |
| Total liabilities                           | 1,597            | 1,256                   |

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Commitments And Contingencies Stockholders' Equity:

|                                                                                                                                                                                                                              |           |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Stock capital: (Note 6)                                                                                                                                                                                                      | 6         | 6         |
| Common stock of \$0.00005 par value - Authorized: 800,000,000 shares at June 30, 2012 and December 31, 2011; Issued and outstanding: 128,586,644 and 126,444,309 shares at June 30, 2012 and December 31, 2011 respectively. |           |           |
| Additional paid-in-capital                                                                                                                                                                                                   | 46,027    | 45,560    |
| Deficit accumulated during the development stage                                                                                                                                                                             | (45,780 ) | (44,078 ) |
| Total stockholders' equity                                                                                                                                                                                                   | 253       | 1,488     |
| Total liabilities and stockholders' equity                                                                                                                                                                                   | 1,850     | 2,744     |

**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)

|                                                                       | Six months<br>ended June 30,<br>2012<br>Unaudited |   | 2011        | Three months<br>ended June 30,<br>2012<br>Unaudited |   | 2011        | Period from<br>September 22,<br>2000 (inception<br>Date) through<br>June 30,<br>2012(*)<br>Unaudited |
|-----------------------------------------------------------------------|---------------------------------------------------|---|-------------|-----------------------------------------------------|---|-------------|------------------------------------------------------------------------------------------------------|
| Operating costs and expenses:                                         |                                                   |   |             |                                                     |   |             |                                                                                                      |
| Research and development, net                                         | \$754                                             |   | \$856       | \$385                                               |   | \$586       | \$ 25,173                                                                                            |
| General and administrative                                            | 958                                               |   | 1,087       | 448                                                 |   | 829         | 17,961                                                                                               |
| Total operating costs and expenses                                    | 1,712                                             |   | 1,943       | 833                                                 |   | 1,415       | 43,134                                                                                               |
| Financial expenses (income), net                                      | (15                                               | ) | (14         | (4                                                  | ) | (191        | 2,532                                                                                                |
| Other expenses (income)                                               | -                                                 |   | (132        | -                                                   |   | (132        | (132                                                                                                 |
| Operating loss                                                        | 1,697                                             |   | 1,797       | 829                                                 |   | 1,092       | 45,534                                                                                               |
| Taxes on income                                                       | 5                                                 |   | 5           | 1                                                   |   | 5           | 82                                                                                                   |
| Loss from continuing operations                                       | 1,702                                             |   | 1,802       | 830                                                 |   | 1,097       | 45,616                                                                                               |
| Net loss from discontinued operations                                 | -                                                 |   | -           | -                                                   |   | -           | 164                                                                                                  |
| Net loss                                                              | \$1,702                                           |   | \$1,802     | \$830                                               |   | \$1,097     | \$ 45,780                                                                                            |
| Basic and diluted net loss per share from continuing operations       | 0.01                                              |   | 0.02        | 0.01                                                |   | 0.01        |                                                                                                      |
| Weighted average number of shares outstanding used in computing basic | 127,334,805                                       |   | 115,108,731 | 128,078,347                                         |   | 121,253,983 |                                                                                                      |

and diluted net loss per share

(\*) Out of which, \$163, relating to the period from inception to March 31, 2004, is unaudited.

**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 September 22, 2000 (date of inception) (unaudited)                | -                      | \$ -   | \$ -                             | \$ -                                      | \$ -                                                         | \$ -                                             |
| Stock issued on September 22, 2000 for cash at \$0.00188 per share              | 8,500,000              | 1      | 16                               | -                                         | -                                                            | 17                                               |
| Stock issued on March 31, 2001 for cash at \$0.0375 per share                   | 1,600,000              | * -    | 60                               | -                                         | -                                                            | 60                                               |
| Contribution of capital                                                         | -                      | -      | 8                                | -                                         | -                                                            | 8                                                |
| Net loss                                                                        | -                      | -      | -                                | -                                         | (17 )                                                        | (17 )                                            |
| Balance as of March 31, 2001 (unaudited)                                        | 10,100,000             | 1      | 84                               | -                                         | (17 )                                                        | 68                                               |
| Contribution of capital                                                         | -                      | -      | 11                               | -                                         | -                                                            | 11                                               |
| Net loss                                                                        | -                      | -      | -                                | -                                         | (26 )                                                        | (26 )                                            |
| Balance as of March 31, 2002 (unaudited)                                        | 10,100,000             | 1      | 95                               | -                                         | (43 )                                                        | 53                                               |
| Contribution of capital                                                         | -                      | -      | 15                               | -                                         | -                                                            | 15                                               |
| Net loss                                                                        | -                      | -      | -                                | -                                         | (47 )                                                        | (47 )                                            |
| Balance as of March 31, 2003 (unaudited)                                        | 10,100,000             | 1      | 110                              | -                                         | (90 )                                                        | 21                                               |
| 2-for-1 stock split                                                             | 10,100,000             | * -    | -                                | -                                         | -                                                            | -                                                |
| Stock issued on August 31, 2003 to purchase mineral option at \$0.065 per share | 100,000                | * -    | 6                                | -                                         | -                                                            | 6                                                |
| Cancellation of shares granted to Company's President                           | (10,062,000)           | * -    | * -                              | -                                         | -                                                            | -                                                |
| Contribution of capital                                                         | -                      | * -    | 15                               | -                                         | -                                                            | 15                                               |
| Net loss                                                                        | -                      | -      | -                                | -                                         | (73 )                                                        | (73 )                                            |
| Balance as of March 31, 2004 (unaudited)                                        | 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 - 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 for<br>private placement at \$0.01 per share, net<br>of \$25,000 issuance expenses | 8,510,000              | * -    | 60                               | -                                         | -                                                            | 60                                               |
| Contribution capital                                                                                             | -                      | -      | 7                                | -                                         | -                                                            | 7                                                |
| Stock issued in 2004 for private<br>placement at \$0.75 per unit                                                 | 1,894,808              | * -    | 1,418                            | -                                         | -                                                            | 1,418                                            |
| Cancellation of shares granted to service<br>providers                                                           | (1,800,000 )           | * -    | -                                | -                                         | -                                                            | -                                                |
| Deferred stock-based compensation<br>related to options granted to employees                                     | -                      | -      | 5,979                            | (5,979 )                                  | -                                                            | -                                                |
| Amortization of deferred stock-based<br>compensation related to shares and<br>options granted to employees       | -                      | -      | -                                | 584                                       | -                                                            | 584                                              |
| Compensation related to shares and<br>options granted to service providers                                       | 2,025,000              | * -    | 17,506                           | -                                         | -                                                            | 17,506                                           |
| Net loss                                                                                                         | -                      | -      | -                                | -                                         | (18,840 )                                                    | (18,840 )                                        |
| Balance as of March 31, 2005                                                                                     | 20,867,808             | \$ 1   | \$ 25,101                        | \$ (5,395 )                               | \$ (19,003 )                                                 | \$ 704                                           |

\* Represents an amount less than \$1.

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



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(except share data)

|                                                                                                                    | Common stock<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 March 31, 2005                                                                                       | 20,867,808             | \$ 1   | \$ 25,101                        | \$ (5,395 )                               | \$ (19,003 )                                                 | \$ 704                                           |
| Stock issued on May 12, 2005 for private placement at \$0.8 per share                                              | 186,875                | * -    | 149                              | -                                         | -                                                            | 149                                              |
| Stock issued on July 27, 2005 for private placement at \$0.6 per share                                             | 165,000                | * -    | 99                               | -                                         | -                                                            | 99                                               |
| Stock issued on September 30, 2005 for private placement at \$0.8 per share                                        | 312,500                | * -    | 225                              | -                                         | -                                                            | 225                                              |
| Stock issued on December 7, 2005 for private placement at \$0.8 per share                                          | 187,500                | * -    | 135                              | -                                         | -                                                            | 135                                              |
| Forfeiture of options granted to employees                                                                         | -                      | -      | (3,363 )                         | 3,363                                     | -                                                            | -                                                |
| Deferred stock-based compensation related to shares and options granted to directors and employees                 | 200,000                | * -    | 486                              | (486 )                                    | -                                                            | -                                                |
| Amortization of deferred stock-based compensation related to options and shares granted to employees and directors | -                      | -      | 51                               | 1,123                                     | -                                                            | 1,174                                            |
| Stock-based compensation related to options and shares granted to service providers                                | 934,904                | * -    | 662                              | -                                         | -                                                            | 662                                              |
| Reclassification due to application of ASC 815-40-25 (formerly EITF 00-19)                                         | -                      | -      | (7,906 )                         | -                                         | -                                                            | (7,906 )                                         |
| Beneficial conversion feature related to a convertible bridge loan                                                 | -                      | -      | 164                              | -                                         | -                                                            | 164                                              |
| Net loss                                                                                                           | -                      | -      | -                                | -                                         | (3,317 )                                                     | (3,317 )                                         |
| Balance as of March 31, 2006                                                                                       | 22,854,587             | \$ 1   | \$ 15,803                        | \$ (1,395 )                               | \$ (22,320 )                                                 | \$ (7,911 )                                      |
| Elimination of deferred stock compensation due to implementation of ASC 718-10 (formerly SFAS 123(R))              | -                      | -      | (1,395 )                         | 1,395                                     | -                                                            | -                                                |
|                                                                                                                    | 200,000                | * -    | 1,168                            | -                                         | -                                                            | 1,168                                            |

Stock-based compensation related to  
shares and options granted to directors  
and employees

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

\* Represents an amount less than \$1.

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



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

|                                                                                           | Common stock<br>Number | Capital | Additional<br>paid-in<br>compensation | Deferred<br>Stock - based<br>stage | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficiency) |
|-------------------------------------------------------------------------------------------|------------------------|---------|---------------------------------------|------------------------------------|--------------------------------------------------------------|--------------------------------------------------|
| Balance as of December 31, 2006                                                           | 24,201,812             | \$ 1    | \$ 24,427                             | \$ -                               | \$ (26,244 )                                                 | \$ (1,816 )                                      |
| Stock-based compensation related to options and shares granted to service providers       | 544,095                |         | 1,446                                 | -                                  | -                                                            | 1,446                                            |
| Warrants issued to convertible note holder                                                | -                      | -       | 109                                   | -                                  | -                                                            | 109                                              |
| Stock-based compensation related to shares and options granted to directors and employees | 200,000                | * -     | 1,232                                 | -                                  | -                                                            | 1,232                                            |
| Beneficial conversion feature related to convertible loans                                | -                      | -       | 407                                   | -                                  | -                                                            | 407                                              |
| Conversion of convertible loans                                                           | 725,881                | * -     | 224                                   | -                                  | -                                                            | 224                                              |
| Exercise of warrants                                                                      | 3,832,621              | * -     | 214                                   | -                                  | -                                                            | 214                                              |
| Stock issued for private placement at \$0.1818 per unit, net of finder's fee              | 11,500,000             | 1       | 1,999                                 | -                                  | -                                                            | 2,000                                            |
| Net loss                                                                                  | -                      | -       | -                                     | -                                  | (6,244 )                                                     | (6,244 )                                         |
| Balance as of December 31, 2007                                                           | 41,004,409             | \$ 2    | \$ 30,058                             | \$ -                               | \$ (32,488 )                                                 | \$ (2,428 )                                      |
| Stock-based compensation related to options and stock granted to service providers        | 90,000                 | -       | 33                                    | -                                  | -                                                            | 33                                               |
| Stock-based compensation related to stock and options granted to directors and employees  | -                      | -       | 731                                   | -                                  | -                                                            | 731                                              |
| Conversion of convertible loans                                                           | 3,644,610              | * -     | 1,276                                 | -                                  | -                                                            | 1,276                                            |
| Exercise of warrants                                                                      | 1,860,000              | * -     | -                                     | -                                  | -                                                            | -                                                |
| Exercise of options                                                                       | 17,399                 | * -     | 3                                     | -                                  | -                                                            | 3                                                |
| Stock issued for private placement at \$0.1818 per unit, net of finder's fee              | 8,625,000              | 1       | 1,499                                 | -                                  | -                                                            | 1,500                                            |
| Subscription of shares for private placement at \$0.1818 per unit                         | -                      | -       | 281                                   | -                                  | -                                                            | 281                                              |

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|                                 |            |      |           |      |              |             |
|---------------------------------|------------|------|-----------|------|--------------|-------------|
| Net loss                        | -          | -    | -         | -    | (3,472 )     | (3,472 )    |
| Balance as of December 31, 2008 | 55,241,418 | \$ 3 | \$ 33,881 | \$ - | \$ (35,960 ) | \$ (2,076 ) |

\* Represents an amount less than \$1.

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

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

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

U.S. dollars in thousands

(Except share data)

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

\* Represents an amount less than \$1.

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

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

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

U.S. dollars in thousands

(Except share data)

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

\* Represents an amount less than \$1.

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



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

|                                                                                          | Common stock<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 31, 2010                                                          | 95,832,978             | \$ 5   | \$ 39,696                        | \$ -                                      | \$ (40,160 )                                                 | \$ (459 )                                        |
| Stock-based compensation related to options and stock granted to service providers       | 474,203                | -      | 449                              | -                                         | -                                                            | 449                                              |
| Stock-based compensation related to stock and options granted to directors and employees | 2,025,040              | -      | 1,135                            | -                                         | -                                                            | 1,135                                            |
| Conversion of convertible note                                                           | 755,594                | -      | 140                              | -                                         | -                                                            | 140                                              |
| Exercise of options                                                                      | 1,648,728              | -      | 243                              | -                                         | -                                                            | 243                                              |
| Exercise of warrants                                                                     | 1,046,834              | -      | 272                              | -                                         | -                                                            | 272                                              |
| Issuance of shares for private placement                                                 | 14,160,933             | 1      | 3,601                            | -                                         | -                                                            | 3,602                                            |
| Issuance of shares on account of previously subscribed shares (See also Note 11B.1.f)    | 10,499,999             | -      | 24                               | -                                         | -                                                            | 24                                               |
| Net loss                                                                                 | -                      | -      | -                                | -                                         | (3,918 )                                                     | (3,918 )                                         |
| Balance as of December 31, 2011                                                          | 126,444,309            | \$ 6   | \$ 45,560                        | \$ -                                      | \$ (44,078 )                                                 | \$ 1,488                                         |

\* Represents an amount less than \$1.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

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

U.S. dollars in thousands

(except share data)

|                                                                                                | Common stock<br>Number |      | Additional<br>paid-in<br>Amountcapital | Deficit<br>Deferred<br>Stock – based<br>compensation | accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>Equity<br>(deficiency) |
|------------------------------------------------------------------------------------------------|------------------------|------|----------------------------------------|------------------------------------------------------|---------------------------------------------------|--------------------------------------------------|
| Balance as of December 31, 2011                                                                | 126,444,309            | \$ 6 | \$ 45,560                              | \$ -                                                 | \$ (44,078 )                                      | \$ 1,488                                         |
| Stock-based compensation related to options<br>and stock granted to service providers          | -                      | -    | 8                                      | -                                                    | -                                                 | 8                                                |
| Stock-based compensation related to stock<br>and options granted to directors and<br>employees | -                      | -    | 313                                    | -                                                    | -                                                 | 313                                              |
| Exercise of options , net                                                                      | 1,182,606              | -    | 137                                    | -                                                    |                                                   | 137                                              |
| Exercise of warrants                                                                           | 959,729                | -    | 9                                      | -                                                    |                                                   | 9                                                |
| Net loss                                                                                       | -                      | -    | -                                      | -                                                    | (1,702 )                                          | (1,702 )                                         |
| Balance as of June 30, 2012                                                                    | 128,586,644            | \$ 6 | 46,027                                 | \$ -                                                 | \$ (45,780 )                                      | 253                                              |

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

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

(except share data)

|                                                                             | Six months<br>ended June 30,<br>2012      2011<br>Unaudited |           | Period from<br>September 22,<br>2000 (inception<br>Date) through<br>June 30,<br>2012(*)<br>Unaudited |
|-----------------------------------------------------------------------------|-------------------------------------------------------------|-----------|------------------------------------------------------------------------------------------------------|
| Cash flows from operating activities:                                       |                                                             |           |                                                                                                      |
| Net loss                                                                    | \$(1,702)                                                   | \$(1,802) | \$ (45,780 )                                                                                         |
| 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                           | 77                                                          | 76        | 1,078                                                                                                |
| Severance pay, net                                                          | 1                                                           | (35 )     | 13                                                                                                   |
| Accrued interest on loans                                                   | -                                                           | -         | 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         | 8                                                           | 222       | 21,494                                                                                               |
| Stock-based compensation related to options granted to employees            | 313                                                         | 443       | 7,134                                                                                                |
| Decrease (increase) in accounts receivable and prepaid expenses             | (177 )                                                      | 251       | (558 )                                                                                               |
| Increase (decrease) in trade payables                                       | 271                                                         | (11 )     | 988                                                                                                  |
| Increase in other accounts payable and accrued expenses                     | 44                                                          | 1         | 1,441                                                                                                |
| Erosion of restricted cash                                                  | -                                                           | -         | (6 )                                                                                                 |
| Net cash used in continuing operating activities                            | (1,165)                                                     | (855 )    | (12,512 )                                                                                            |
| Net cash used in discontinued operating activities                          | -                                                           | -         | (23 )                                                                                                |
| Total net cash used in operating activities                                 | \$(1,165)                                                   | \$(855 )  | \$ (12,535 )                                                                                         |
| Cash flows from investing activities:                                       |                                                             |           |                                                                                                      |
| Purchase of property and equipment                                          | (61 )                                                       | (37 )     | (1,194 )                                                                                             |
| Restricted cash                                                             | -                                                           | -         | 6                                                                                                    |
| Investment in lease deposit                                                 | -                                                           | (8 )      | (17 )                                                                                                |
| Net cash used in continuing investing activities                            | (61 )                                                       | (45 )     | (1,205 )                                                                                             |
| Net cash used in discontinued investing activities                          | -                                                           | -         | (16 )                                                                                                |
| Total net cash used in investing activities                                 | \$(61 )                                                     | \$(45 )   | \$ (1,221 )                                                                                          |



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

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

(except share data)

(Cont.)

|                                                                                                                 | Six months<br>ended June 30, |             | Period from<br>September 22,<br>2000 (inception<br>Date) through<br>June 30, |
|-----------------------------------------------------------------------------------------------------------------|------------------------------|-------------|------------------------------------------------------------------------------|
|                                                                                                                 | <b>2012</b>                  | <b>2011</b> | <b>2012</b>                                                                  |
|                                                                                                                 | <b>Unaudited</b>             |             | <b>Unaudited</b>                                                             |
| Cash flows from financing activities:                                                                           |                              |             |                                                                              |
| Proceeds from issuance of Common stock, net                                                                     | \$-                          | \$3,626     | \$ 12,319                                                                    |
| Proceeds from loans, notes and issuance of warrants, net                                                        | -                            | -           | 2,061                                                                        |
| Proceeds from exercise of warrants and options                                                                  | 146                          | 80          | 777                                                                          |
| Repayment of short-term loans                                                                                   | -                            | -           | (601 )                                                                       |
| Net cash provided by continuing financing activities                                                            | 146                          | 3,706       | 14,556                                                                       |
| Net cash provided by discontinued financing activities                                                          | -                            | -           | 43                                                                           |
| Total net cash provided by financing activities                                                                 | \$146                        | \$3,706     | \$ 14,599                                                                    |
|                                                                                                                 |                              |             |                                                                              |
| Increase (decrease) in cash and cash equivalents                                                                | (1,080)                      | 2,806       | 843                                                                          |
| Cash and cash equivalents at the beginning of the period                                                        | 1,923                        | 93          | -                                                                            |
| Cash and cash equivalents at end of the period                                                                  | \$843                        | \$2,899     | \$ 843                                                                       |
|                                                                                                                 |                              |             |                                                                              |
| Non-cash financing activities:                                                                                  |                              |             |                                                                              |
| Conversion of convertible loan and convertible note to shares Conversion of trade payable to Common Stock \$ 84 | -                            | 137         |                                                                              |
| Conversion of other accounts payable to Common Stock                                                            | -                            | 24          |                                                                              |

(\*) Out of the which, cash flows used in discontinued operating activities of \$36, cash flows used in discontinued investing activities of \$16 and cash flows provided in discontinued financing activities of \$57, relating to the period from inception to March 31, 2004, is unaudited.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

Notes to the financial statements

NOTE 1 - GENERAL

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

On May 21, 2004, the former major stockholders of the Company entered into a purchase agreement with a group B. 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.

On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), to acquire a license certain stem cell technology (see Note 3). Subsequent to this agreement, the C. Company decided to focus on the development of novel cell therapies for neurodegenerative diseases, 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".

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

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

F. On September 17, 2006, the Company's changed its fiscal year-end from June 30 to December 31.

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

Since inception, the Company has devoted substantially all of its efforts to research and development, recruiting management and technical staff, acquiring assets and raising capital. In addition, the Company has not generated H. 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).

In October 2010, the Israeli Ministry of Health granted clearance for a Phase I/II clinical trial using the Company's I. autologous NurOwn™ stem cell therapy in patients with amyotrophic lateral sclerosis ("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 Israel Ministry of Health (MOH), all the required documents. Following approval of the 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 ALS.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

**NOTE 1 - GENERAL (Cont.)**

**GOING CONCERN**

As reflected in the accompanying financial statements, the Company's operations for the six months ended June 30, 2012, resulted in a net loss of \$1,702. The Company's balance sheet reflects an accumulated deficit of \$45,780. 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 for ALS and such trials did commence in 2011.

Following the balance sheet date, in July 2012, the Company raised \$4.9 million, net, in a public offering. (See Note 7) However, there can be no assurance that additional funds will be available on terms acceptable to the Company, or at all.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2011 are applied consistently in these financial statements.

NOTE 3 - UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in a condensed format and include the consolidated financial operations of the Company and its wholly-owned subsidiary as of June 30, 2012 and for the three months then ended, in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

NOTE 4 - RESEARCH AND LICENSE AGREEMENT

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

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.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

**NOTE 4 - RESEARCH AND LICENSE AGREEMENT (Cont.)**

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:

Ramot released the Company from its obligation to fund the extended research period in the total amount of \$1,140. a) Therefore, the Company reversed an amount in 2009, equal to \$760 from its research and development expenses that were previously expensed.

Past due amounts of \$240 for the initial research period plus interest of \$32 owed by the Company to Ramot was b) 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.

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

**NOTE 5 - CONSULTING AGREEMENTS**

A. On July 8, 2004, the Company entered into two consulting agreements with 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 agreement were issued to the Consultants effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005. As of September 2010, all the above warrants had been exercised. In June 2012 an amendment was signed with Dr. Daniel Offen, according to which the company will pay Daniel Offen a monthly payment of \$6, out of which \$3 in cash and \$3 by grant of Company stock.

**B.** On December 16, 2010, the Company approved a grant of 1,100,000 shares of the Company's Common Stock to the two Consultants, for services rendered through December 31, 2010. Related compensation in the amount of \$220 was recorded as research and development expense. A sum of \$487 was cancelled concurrently with the issuance of the 1,100,000 shares of Common Stock of the Company.

**C.** On June 27, 2011, the Company approved an additional grant of 400,000 shares of the Company's Common Stock to Prof. Daniel Offen, for services rendered through December 31, 2009. Related compensation in the amount of \$192 was recorded as financial expense.

**D.** As of June 30, 2012, the Company has a total obligation of \$162 for services rendered by the Consultants under the abovementioned agreements.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

**NOTE 6 - STOCK CAPITAL**

A. The rights of Common Stock are as follows:

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

The Common Stock is registered and publicly traded on the Over-the-Counter Bulletin Board service of the National Association of Securities Dealers, Inc. under the symbol BCLI.

B. Issuance of shares warrants and options:

1. Private placements:

a) On June 24, 2004, the Company issued to investors 8,510,000 shares of Common Stock for total proceeds of \$60 (net of \$25 issuance expenses).

b) On February 23, 2005, the Company completed a private placement for sale of 1,894,808 units for total proceeds of \$1,418. Each unit consists of one share of Common Stock and a three-year warrant to purchase one share of Common Stock at \$2.50 per share. This private placement was consummated in three tranches which closed in October 2004, November 2004 and February 2005.

c) On May 12, 2005, the Company issued to an investor 186,875 shares of Common Stock 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.

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On August 11, 2005, the Company signed a private placement agreement with investors for the sale of up to 1,250,000 units at a price of \$0.8 per unit. Each unit consists of one share of Common Stock and one warrant to purchase one share of Common Stock at \$1.00 per share. The warrants are exercisable for a period of three years from issuance. On March 31, 2005, the Company sold 312,500 units for total net proceeds of \$225. On December 7, 2005, the Company sold 187,500 units for total net proceeds of \$135.

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<br>shares |
|-------------------|-----------------------------------------------------|-------------------------------------|--------------------------------|
| August 30, 2007   | \$1,250 (includes \$250 paid as a convertible loan) | 6,875,000                           | 7,562,500                      |
| November 15, 2007 | \$750                                               | 4,125,000                           | 4,537,500                      |
| 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:

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

1. Private placements: (Cont.)

f)(Cont.)

The investor shall invest the remaining amount of the original investment agreement at price per share of \$0.12 in (a) monthly installments of not less than \$50 starting August 1, 2009. The investor may accelerate such payments at its discretion.

(b) The exercise price of the last 10,083,334 warrants decreased 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.

The price per share of the investment agreement decreased from \$0.1818 to \$0.12, therefore the Company adjusted (d) 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 an investor signed an agreement to balance 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

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As of March 31, 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 agreed to issue an aggregate of 1,250,000 shares of Common Stock to a related party as an introduction fee for the investment. The shares shall be issued pro rata to the funds received from the investor.

As of December 31, 2010, the introduction fee was paid in full.

In January 2010, the Company issued 1,250,000 units to a private investor for total proceeds of \$250. Each unit g)consists of one share of Common Stock and a two-year warrant to purchase one share of Common Stock at \$0.50 per share.

In February 2010, the Company issued 6,000,000 shares of Common Stock to 3 investors (2,000,000 to each h)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).

On February 7, 2011, the Company issued 833,333 shares of Common Stock, at a price of \$0.3 per share, and a i)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 6 - STOCK CAPITAL (Cont.)

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

1. Private placements: (Cont.)

On February 23, 2011, the Company entered into an investment agreement, pursuant to which the Company agreed to sell up to 12,815,000 shares of Common Stock, for an aggregate subscription price of up to \$3.6 million and j) 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, out of which 946,834 were exercised, and 5,460,666 were cancelled.

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 shares of Common Stock and paid \$231.

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.

In June 2011, the Company's stockholders approved an increase in the number of shares of common stock available for issuance under these stock option plans in the aggregate by 5,000,000 shares.

In June 2012, the Company's stockholders approved an increase in the number of shares of common stock available for issuance under these stock option plans in the aggregate by 9,000,000 shares.

As of June 30, 2012, 12,225,103 options are available for future grants.

On May 27, 2005, the Company granted one of its directors an option to purchase 100,000 shares of Common Stock at an exercise price of \$0.75 per share. The 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 6 - STOCK CAPITAL (Cont.)

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

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

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

On 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 changed 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 changed 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 and expires after 10 years. The total compensation related to the option is \$733, which is amortized over the vesting period as general and administrative expense.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

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

On November 5, 2008, the Company entered into an amendment to the Company's option agreement with the Company's Chief Executive Officer. The amendment changed the exercise price of the 1,000,000 options 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 and exercisable through April 30, 2012. An additional \$30 was written as compensation in general and administrative expense. In April 2012, the former CEO exercised the option to 483,333 shares of Common Stock for an exercise price of \$32.

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 were valid 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 6 - STOCK CAPITAL (Cont.)

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

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

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

On 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 was \$50, which is amortized over the vesting period as general and administrative expense.

On December 16, 2010, the Company granted to two of its directors an option to purchase 400,000 shares of Common Stock at an exercise price of \$0.15 per share. The options are fully vested and are exercisable for a period of 10 years. The compensation related to the option, in the amount of \$78, was recorded as general and administrative expense.

On December 16, 2010, the Company approved the grant to two Board members an option to purchase 400,000 shares of Common Stock of the Company (200,000 shares each). The compensation related to the option, in the amount of \$80, was recorded as general and administrative expense.

On December 16, 2010, the Company approved the grant to its three Scientific Board members 300,000 shares of Common Stock of the Company. The compensation related to the option, in the amount of \$60, was recorded as research and development expense

On December 16, 2010, the Company granted to its employees options to purchase 670,000 shares of Common Stock at an exercise price of \$0.18 per share. The options are vested over three years and are exercisable for a period of 10 years. The compensation related to the option, in the amount of \$32, was recorded as general and administrative expense.

On January 30, 2011 the Company signed an agreement with a new COO and acting CEO. According to the employment agreement, the new COO received 450,000 options to purchase Common Stock of the Company at \$0.20.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

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

On 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 was \$48, which is amortized over the vesting period as general and administrative expense.

On June 27, 2011, the Company granted to four of its directors options to purchase an aggregate of 634,999 shares of Common Stock of the Company at \$0.15. The total compensation related to the option was \$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 was \$26, which was amortized as general and administrative expense.

In April 2012, 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 compensation related to the option of \$8, was amortized over the vesting period as general and administrative expense.

In the six months ended June 30, 2012, 1,182,606 options were exercised by the former CEO of the Company for \$20.

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

|                                              | For the six months period ended<br>June 30, 2012 |                                                |                                       |
|----------------------------------------------|--------------------------------------------------|------------------------------------------------|---------------------------------------|
|                                              | Amount of<br>options                             | Weighted<br>average<br>exercise<br>price<br>\$ | Aggregate<br>intrinsic<br>value<br>\$ |
| Outstanding at beginning of period           | 4,938,821                                        | 0.168                                          |                                       |
| Granted                                      | 166,666                                          | 0.00005                                        |                                       |
| Exercised                                    | (1,182,606)                                      | 0.116                                          |                                       |
| Reclassified                                 | 13,784                                           | 0.010                                          |                                       |
| Outstanding at end of period                 | 3,936,665                                        | 0.1766                                         | 407,051                               |
| Vested and expected-to-vest at end of period | 3,204,999                                        | 0.1812                                         | 316,654                               |

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

b. Restricted shares to directors:

On May 2, 2006, the Company issued to two of its directors 200,000 restricted shares of common stock (100,000 each). The 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 one of its directors 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 restricted shares of Common Stock. 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.

On December 16, 2010, the Company granted to two of its directors 400,000 (total) 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 (total) shares of Common Stock, out of which 216,666 shares are fully vested and 260,000 shares will vest in 12 equal monthly installments through June 2012. Related compensation in the amount of \$229 will be recorded as general and administrative expense.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

b. Restricted shares to directors: (Cont.)

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 shares of 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 enters 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 anniversary of the Grant Date and the remaining 1/3 will vest on the second 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.

In August 2011, the Company issued to three of its Scientific Advisory Board members and three of its Advisory Board members a total of 300,000 restricted shares of Common Stock. The restrictions of the shares shall lapse over the service period in 12 equal monthly portions.

In November 2011, the Company issued to four of its Advisory Board members a total of 500,000 restricted shares of Common Stock. The restrictions of the shares shall lapse over the service period, in equal 12 monthly portions.

In addition, in November 2011, the Company issued to a former director 250,000 shares of Common Stock. Related compensation in the amount of \$70 was recorded as general and administrative expense

3. Shares and warrants to investors and service providers:

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

In April 2010, the Company granted Hadasit an option to purchase 33,334 shares of Common Stock at an exercise price equal to \$0.00005 per share. The total compensation related to the option is \$7, which is amortized over the vesting period as general and administrative expense.

On December 31, 2011, the Company issued to Hadasit warrants to purchase up to 1,500,000 restricted shares of the Company's Common Stock at an exercise price of \$0.001 per share, exercisable for a period of 5 years. The warrants shall vest over the course of the trials as follows: 500,000 upon enrollment of 1/3 of the patients; an additional 500,000 upon enrollment of all the patients and the final 500,000 upon completion of the study.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

In April 2011, the Company granted Hadasit an option to purchase 33,334 shares of Common Stock at an exercise price equal to \$0.00005 per share. The total compensation related to the option is \$11, which is amortized over the vesting period as research and development expense.

In April 2012, the Company granted Hadasit an option to purchase 33,334 shares of Common Stock at an exercise price equal to \$0.00005 per share. The compensation related to the option of \$3, was 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 6 - STOCK CAPITAL (Cont.)

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

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

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

| Issuance date           | Number of warrants issued | Exercised  | Forfeited | Outstanding | Exercise Price \$ | Warrants exercisable | Exercisable through |
|-------------------------|---------------------------|------------|-----------|-------------|-------------------|----------------------|---------------------|
| November 2004           | 12,800,845                | 12,596,010 | 204,835   | -           | 0.01              | -                    | -                   |
| 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              | 30,000               | June 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           | 477,163                   | 170,000    |           | 307,163     | 0.15              | 307,163              | December 2015       |
| February 2006           | 230,000                   |            |           | 230,000     | 0.65              | 230,000              | February 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            | 50,000               | May 2016            |
| May -December 2006      | 48,000                    |            | 48,000    | -           | 0.35              | -                    | -                   |
| May -December 2006      | 48,000                    |            | 48,000    | -           | 0.75              | -                    | -                   |
| May 2006                | 200,000                   |            |           | 200,000     | 1                 | 200,000              | May 2016            |
| June 2006               | 24,000                    |            | 24,000    | -           | 0.15              | -                    | -                   |
| May 2006                | 19,355                    |            | 19,355    | -           | 0.15              | -                    | -                   |
| October 2006            | 630,000                   | 630,000    |           | -           | 0.3               | -                    | -                   |

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|                |            |            |            |            |         |            |                |
|----------------|------------|------------|------------|------------|---------|------------|----------------|
| December 2006  | 200,000    |            | 200,000    | -          | 0.45    | -          | -              |
| March 2007     | 700,000    |            | 200,000    | 500,000    | 0.47    | 500,000    | March 2017     |
| March 2007     | 65,000     |            | 65,000     | -          | 0.15    | -          | -              |
| February 2007  | 50,000     |            | 50,000     | -          | 0.45    | -          | -              |
| March 2007     | 275,000    |            | 275,000    | -          | 0.45    | -          | -              |
| 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      | 130,000    |            | 130,000    | -          | 0.45    | -          | -              |
| October 2007   | 200,000    |            |            | 200,000    | 0.15    | 200,000    | 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    | 100,000    |            | 100,000    | 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     | -          | -              |
| February 2010  | 125,000    | 125,000    |            | -          | 0.01    | -          | -              |
| February 2010  | 3,000,000  |            | 3,000,000  | -          | 0.5     | -          | -              |
| January 2011   | 4,537,500  |            |            | 4,537,500  | 0.29    | 4,537,500  | November 2013  |
| February 2011  | 641,026    |            | 641,026    | -          | 0.39    | -          | -              |
| February 2011  | 6,407,500  | 946,834    | 5,460,666  | -          | 0.28    | -          | -              |
| February 2011  | 12,815,000 |            |            | 12,815,000 | 0.5     | 12,815,000 | February 2013  |
| April 2010     | 33,334     |            |            | 33,334     | 0.00005 | 33,334     | April 2020     |
| April 2011     | 33,334     |            |            | 33,334     | 0.00005 | 33,334     | April 2021     |
| February 2010  | 1,500,000  |            |            | 1,500,000  | 0.00005 | 500,000    | February 2020  |
| April 2012     | 33,334     |            |            | 33,334     | 0.00005 | 33,334     | April 2022     |
|                | 78,637,499 | 16,468,540 | 14,586,794 | 47,582,165 |         | 46,548,831 |                |

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

**NOTE 6 - STOCK CAPITAL (Cont.)**

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

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

**a) Warrants: (Cont.)**

The fair value for the warrants to service providers was estimated on the date of grant using a Black-Scholes option pricing model, with the following weighted-average assumptions for the 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 that were calculated using Black-Scholes option pricing model in 2011 and in the six months ended June 30, 2012.

**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 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 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.

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.



**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

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

On January 3, 2007, the Company issued to its legal advisor 176,327 shares of Common Stock 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. 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 6 - STOCK CAPITAL (Cont.)

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 financial advisor 90,000 shares of the Company's Common Stock. The shares were for \$35 payable to the financial advisor for introduction fee of past convertible loans. Related compensation in the amount of \$36 was recorded as financial 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 relations 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 financial consultant 285,714 shares of the Company's Common Stock. The shares were for \$20 payable to the financial 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 relations advisor 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 relations advisor that entitled 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 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 principle and interest outstanding under the note, amounting to \$189, into 1,016,109 shares of Common Stock.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements**

NOTE 6 - STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

On December 13, 2009, the Company issued a \$135 Convertible Promissory Note to its legal advisor for \$217 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.

On April 6, 2010, Prof. Melamed fully exercised his warrant to purchase 1,097,215 shares of the Company's Common Stock; the warrant was issued to him pursuant to the agreement with the Consultants effective as of November 4, 2004.

In May 2010, based on a board resolution dated June 29, 2009 the Company issued to one of its public relations advisors 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 issued to a service provider 83,333 shares of the Company's Common Stock. The shares were for public relations services. Related compensation in the amount of \$40 was recorded as general and administrative expense.

On December 16, 2010, the Company granted 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 was

recorded as research and development expense (see Note 5B).

On December 16, 2010, the Company granted 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 was recorded as research and development expense (see Note 5B).

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

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.

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.

On June 27, 2011, the Company granted to its consultant 400,000 shares of the Company's Common Stock, for services rendered through December 31, 2009. Related compensation in the amount of \$192 is recorded as research and development expense. (See note 4 C).

On June 27, 2011, the Company granted to a service provider 10,870 shares of the Company's Common Stock. Related compensation in the amount of \$5 is recorded as general and administrative expense.

**BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY**

(A development stage company)

**Notes to the financial statements****NOTE 6 - STOCK CAPITAL (Cont.)**

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:

|                                        | Six months<br>ended June 30, |      | Three months<br>ended June 30, |      | Period from<br>September 22,<br>2000 (inception<br>date) through<br>June 30, |
|----------------------------------------|------------------------------|------|--------------------------------|------|------------------------------------------------------------------------------|
|                                        | 2012                         | 2011 | 2012                           | 2011 | 2012                                                                         |
|                                        | Unaudited                    |      | Unaudited                      |      | Unaudited                                                                    |
| Research and development               | 25                           | 19   | 12                             | 10   | 17,581                                                                       |
| General and administrative             | 296                          | 454  | 128                            | 456  | 10,409                                                                       |
| Financial expenses, net                | -                            | 192  | -                              | 192  | 248                                                                          |
| Total stock-based compensation expense | 321                          | 665  | 140                            | 658  | 28,238                                                                       |

**NOTE 7 - SUBSEQUENT EVENTS**

On July 17, 2012, the Company raised a \$5.7 million through a public offering ("Public Offering") of its common stock. The Company issued a total of 19,818,972 common stock of \$0.00005 par value, (\$0.29 per share) and warrants to purchase 0.75 shares of Common Stock for every share purchased in the Public Offering, at an exercise price of \$0.29 per share. The Warrants are exercisable until the 30 month anniversary of the date of issuance. After deducting closing

costs and fees, the Company received net proceeds of approximately \$4.9 million.

The Company also paid to the Placement Agency, Maxim Group LLC (the “Placement Agent”) a cash fee equal to 6% of the gross proceeds of the Public Offering and a corporate finance fee of 1% of the gross proceeds of the Public Offering, as well as fees and expenses of the Placement Agent of \$100,000. In addition, the Company issued to the Placement Agent a two year warrant to purchase up to 594,569 shares of Common Stock (equal to 3% of the number of shares sold in the Public Offering), with an exercise price equal to \$0.348 (120% of the Public offering price). The Warrants are exercisable until the 30 month anniversary of the date of issuance.



## 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 words. 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 biotechnology company developing innovative adults stem cell therapies for highly debilitating neurodegenerative disorders such as Amyotrophic Lateral Sclerosis (ALS, also known as Lou Gehrig's disease), Multiple Sclerosis, and Parkinson's disease (PD). These devastating diseases have limited treatment options and as such represent highly unmet medical needs.

BrainStorm's proprietary process for propagation of Mesenchymal Stem Cells (MSC), and their differentiation into NeuroTrophic factor-(NTF) secreting cells (MSC-NTF), and their transplantation at, or near, the site of damage, offers the hope of repairing degenerated tissues and curing the underlying pathology, rather than simply treating its symptoms.

BrainStorm's approach has a high safety profile based on its use of autologous cells, which are free of the risk of rejection, tumor formation, controversy or ethical issues.

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 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. However, the company intends to begin pre-clinical testing of Multiple Sclerosis during 2012.

In February 2011, the U.S. Food and Drug Administration (“FDA”) granted Orphan Drug designation to NurOwn, the Company’s 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 US government 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.

In June 2011, BrainStorm initiated a Phase I/II clinical trial for the treatment of ALS with NurOwn at the Hadassah University Medical Center’s in Jerusalem, after receiving approval from the Israeli Ministry of Health (“MoH”). BrainStorm is the first company to receive clearance from the MoH to carry out a differentiated stem-cell based therapeutic clinical trial in Israel. The Company’s production process for manufacturing clinical grade MSC-NTF cells is in full compliance with Good Manufacturing Practice (“GMP”) requirements.

In July 2012, BrainStorm submitted an interim safety report to the MOH for the first 12 of 24 patients in its Phase I/II clinical trial. The report confirmed that the Company's NurOwn therapy was safe, did not cause any adverse side effects, and some of the patients showed some initial positive clinical indications.

Our efforts are currently directed at:

- Completing a Phase I/II clinical trial in Israel;
- Initiating a Phase II clinical trial in the USA;
- Initiating pre-clinical studies on Multiple Sclerosis; and
- Submitting an IND to the FDA.

## **Our Approach**

The Company's approach to treatment of neurodegenerative diseases with autologous adult stem cells includes a multi-step process beginning with harvesting of undifferentiated stem cells from the patient's own bone marrow, and concluding with transplantation of differentiated, neurotrophic factor-secreting mesenchymal stem cells (MSC-NTF) into the same patient – intrathecally (IT) and/or intramuscularly (IM). This approach is based on pre-clinical data documented by our research team, led by Prof. Melamed and Prof. Offen.

Melamed and Offen's group 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:

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 one (current) – Based on the above pre-clinical results, the company initiated a Phase I/II clinical trial at the Hadassah Medical Center in June 2011 for treatment of ALS patients with MSC-NTF cells. An interim report of this ongoing clinical trial was submitted to the Ministry of Health in July 2012.

NurOwn program two (future) – Based on positive proof-of-concept results with MSC-NTF cells for Multiple Sclerosis (MS), the company plans to initiate a pre-clinical study for this disease in Q3 2012.

Our approach comprises the following steps:

- Bone marrow aspiration from patient;
- Isolation and expansion of the mesenchymal stem cells;
- Differentiation of the expanded stem cells into neurotrophic-factor secreting (MSC-NTF) cells; and
- Autologous transplantation into the patient at 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 June 30, 2012, the Company has not earned any revenues from operations. The Company does not expect to earn revenues from operations until 2017. In addition, the Company has incurred operating costs and other expenses of approximately \$833,000 during the three months ended June 30, 2012, and approximately \$43,134,000 for the period from inception (September 22, 2000) until June 30, 2012. Operating expenses incurred since inception were approximately \$17,961,000 for general and administrative expenses and \$25,173,000 for research and development costs.

### *Research and Development, net:*

Research and development expenses, net for the three months ended June 30, 2012 and 2011 were \$385,000 and \$586,000, respectively. The research and development expenses for the three months ended June 30, 2012 include

participation from The Office of the Chief Scientist of \$375,000, compared to zero for the three months ended June 30, 2011.

The increase in research and development expenses (excluding the participation from the Office of the Chief Scientist) for the three months ended June 30, 2012, compared to the three month period ended June 30, 2011 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 three months ended June 30, 2012 and 2011 were \$448,000 and \$829,000, respectively.

The decrease in general and administrative expenses for the three month period ended June 30, 2012 from the three month period ended June 30, 2011 is primarily due to a decrease of \$438,000 in compensation expenses for options granted to directors and employees.

*Financial Expenses:*

Financial income decreased by \$187,000 to income of \$4,000 for the three months ended June 30, 2012 from expenses of \$191,000 for the three months ended June 30, 2011.

The decrease in financial expenses is attributable to a \$192,000 income from conversion of a debt to a consultant to Common Stock of the Company that was included in the three months ended on June 30, 2011.

*Net Loss:*

Net loss for the three months ended June 30, 2012 was \$830,000, as compared to a net loss of \$1,097,000 for the three months ended June 30, 2011. Net loss per share for the three months ended June 30, 2012 and for the three months ended June 30, 2011 was \$0.01.

The weighted average number of shares of common stock used in computing basic and diluted net loss per share for the three months ended June 30, 2012 was 128,078,347, compared to 121,253,983 for the three months ended June 30, 2011.

The increase in the weighted average number of shares of common stock used in computing basic and diluted net loss per share for the three months ended June 30, 2012 was due to (i) the issuances of shares in private placements, (ii) the exercise of warrants and (iii) 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 June 30, 2012, we had \$1,401,000 in total current assets and \$1,450,000 in total current liabilities.

Net cash used in operating activities was \$419,000 for the three months ended June 30, 2012. Cash used for operating activities in the three months ended June 30, 2012 was primarily attributed to clinical trial costs, payroll costs, rent, outside legal and audit fee expenses and public relations expenses.

Net cash used in investing activities was \$9,000 for the three months ended June 30, 2012.

Net cash provided by financing activities was \$126,000 for the three months ended June 30, 2012 is primarily attributable to exercise of warrants and options to common stock.

On July 17, 2012, the Company raised approximately \$5.7 million through a public offering ("Public Offering") of its common stock. The Company issued a total of 19,818,972 shares of its common stock at \$0.29 per share and warrants to purchase 0.75 shares of common stock for every share purchased in the Public Offering, at an exercise price of \$0.29 per share. The warrants are exercisable until the 30 month anniversary of the date of issuance. After deducting closing costs and fees, the Company received net proceeds of approximately \$4.9 million.

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) \$65,000 per month for rent and operation of the GMP facilities 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 June 30, 2012. 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, 2011.

### **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, 2011, which continued to exist as of June 30, 2012:

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 June 30, 2012 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, 2011. There were no additional material developments to the legal proceedings affecting the Company in the fiscal quarter ended June 30, 2012.

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, 2011, 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, 2011. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, 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, 2011 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 5. Other Information.**

During the quarter ended June 30, 2012, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

#### **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.

August 13, 2012 By: /s/ Adrian Harel

Name: Adrian Harel

Title: Chief Executive Officer (Principal Executive Officer)

August 13, 2012 By: /s/ Liat Sossover

Name: Liat Sossover

Title: Chief Financial Officer (Principal Financial Officer)

## EXHIBIT INDEX

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                 |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1               | Form of Warrant, incorporated herein by reference to Annex B of the Company's Rule 424(b)(1) Prospectus filed July 19, 2012 (File No. 333-179331).                                                                                                          |
| 10.1              | Brainstorm Cell Therapeutics Inc. Amended and Restated 2004 Global Share Option Plan is incorporated herein by reference to Exhibit A to the Registrant's Definitive Schedule 14A filed May 7, 2012 (File No. 000-54365).                                   |
| 10.2              | Brainstorm Cell Therapeutics Inc. Amended and Restated 2005 U.S. Stock Option and Incentive Plan is incorporated herein by reference to Exhibit B to the Registrant's Definitive Schedule 14A filed May 7, 2012 (File No. 000-54365).                       |
| 10.3              | Form of Securities Purchase Agreement, incorporated herein by reference to Annex A of the Company's Rule 424(b)(1) Prospectus filed July 19, 2012 (File No. 333-179331).                                                                                    |
| 10.4              | Form of Placement Agency Agreement by and between Brainstorm Cell Therapeutics Inc. and Maxim Group LLC, incorporated herein by reference to Exhibit 10.58 of the Company's Registration Statement filed June 29, 2012 (File No. 333-179331).               |
| 10.5              | Form of Common Stock Purchase Warrant issued by Brainstorm Cell Therapeutics Inc. to Placement Agent, incorporated herein by reference to Exhibit A of Exhibit 10.58 of the Company's Registration Statement filed June 29, 2012 (File No. 333-179331).     |
| 10.6              | Consulting Agreement, dated as of May 31, 2012, by and between Brainstorm Cell Therapeutics Inc. and Dr. Daniel Offen, incorporated herein by reference to Exhibit 10.15 of the Company's Registration Statement filed June 29, 2012 (File No. 333-179331). |
| 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.                                                                                                  |