

BRAINSTORM CELL THERAPEUTICS INC  
Form 10-Q  
August 19, 2009

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2009

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

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

Commission File Number 333-61610

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

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

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

Accelerated filer   
Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of August 13, 2009, the number of shares outstanding of the registrant's common stock, \$0.00005 par value per share, was 59,791,418.

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TABLE OF CONTENTS

|   | Page<br>Number |
|---|----------------|
| <b>PART I</b>   | <b>3</b>       |
| Item 1. Financial Statements  | 3              |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 33             |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 38             |
| Item 4. Controls and Procedures   | 38             |
| <b>PART II</b>  | <b>39</b>      |
| Item 1. Legal Proceedings   | 39             |
| Item 1A. Risk Factors   | 39             |
| Item 5. Other Information   | 40             |
| Item 6. Exhibits  | 40             |

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, 2009

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2009

UNAUDITED

U.S. DOLLARS IN THOUSANDS

INDEX

|  | Page    |
|--|---------|
| Consolidated Balance Sheets                                | 5       |
| Consolidated Statements of Operations                      | 6       |
| Statements of Changes in Stockholders' Equity (Deficiency) | 7 -11   |
| Consolidated Statements of Cash Flows                      | 12 - 13 |
| Notes to Consolidated Financial Statements                 | 14 - 32 |

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

## CONSOLIDATED BALANCE SHEETS

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

|  | June 30,<br>2009<br>Unaudited | December 31,<br>2008<br>Audited |
|--|-------------------------------|---------------------------------|
| <b>ASSETS</b>  |                               |                                 |
| <b>CURRENT ASSETS:</b>   |                               |                                 |
| Cash and cash equivalents  | \$ 2                          | \$ 2                            |
| Restricted cash  | 35                            | 36                              |
| Accounts receivable and prepaid expenses   | 52                            | 21                              |
| Total current assets   | 89                            | 59                              |
| <b>LONG-TERM INVESTMENTS:</b>  |                               |                                 |
| Prepaid expenses   | 7                             | 11                              |
| Severance pay fund   | 65                            | 62                              |
| Total long-term investments  | 72                            | 73                              |
| <b>PROPERTY AND EQUIPMENT, NET</b>   | <b>664</b>                    | <b>743</b>                      |
| Total assets   | \$ 825                        | \$ 875                          |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>  |                               |                                 |
| <b>CURRENT LIABILITIES:</b>  |                               |                                 |
| Short term Credit from bank  | \$ 28                         | \$ 72                           |
| Trade payables   | 809                           | 744                             |
| Other accounts payable and accrued expenses  | 2,009                         | 1,672                           |
| Short-term convertible loans   | 178                           | 172                             |
| Short-term loans   | -                             | 199                             |
| Total current liabilities  | 3,024                         | 2,859                           |
| <b>ACCRUED SEVERANCE PAY</b>   | <b>93</b>                     | <b>92</b>                       |
| Total liabilities  | 3,117                         | 2,951                           |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                               |                                 |
| <b>STOCKHOLDERS' DEFICIENCY:</b>   |                               |                                 |
| Stock capital: (Note 7)  |                               |                                 |
| Common stock of \$0.00005 par value - Authorized: 800,000,000 shares as of June 30, 2009 and December 31, 2008; Issued and outstanding: 59,791,418 and 55,241,418 shares as of June 30, 2009 and December 31, 2008 respectively. |                               |                                 |
|  | 3                             | 3                               |
| Additional paid-in-capital   | 34,722                        | 33,881                          |
| Deficit accumulated during the development stage   | (37,017)                      | (35,960)                        |
| Total stockholders' deficiency   | (2,292)                       | (2,076)                         |

|  |    |     |    |     |
|--|----|-----|----|-----|
| Total liabilities and stockholders' deficiency | \$ | 825 | \$ | 875 |
|--|----|-----|----|-----|

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

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

|  | Three months<br>ended June 30, |            | Six months<br>ended June 30, |              | Period from<br>September 22,<br>2000<br>(inception<br>date) through<br>June 30,<br>2009 |
|--|--------------------------------|------------|------------------------------|--------------|---|
|  | 2009                           | 2008       | 2009                         | 2008         | 2009  |
|  | Unaudited                      |            | Unaudited                    |              | Unaudited   |
| <b>Operating costs and expenses:</b>   |                                |            |                              |              |   |
| Research and development, net  | \$ 210                         | \$ 283     | \$ 499                       | \$ 873       | \$ 22,003   |
| General and administrative   | 314                            | 479        | 565                          | 1,023        | 12,254  |
| <b>Total operating costs and expenses</b>  | <b>524</b>                     | <b>762</b> | <b>1,064</b>                 | <b>1,896</b> | <b>34,257</b>   |
| Financial expenses (income), net   | 19                             | 94         | (7)                          | 222          | 2,543   |
|  | 543                            | 856        | 1,057                        | 2,118        | 36,800  |
| Taxes on income  | -                              | -          | -                            | -            | 53  |
| <b>Loss from continuing operations</b>   | <b>543</b>                     | <b>856</b> | <b>1,057</b>                 | <b>2,118</b> | <b>36,853</b>   |
| Net loss from discontinued operations  | -                              | -          | -                            | -            | 164   |
| <b>Net loss</b>  | <b>543</b>                     | <b>856</b> | <b>1,057</b>                 | <b>2,118</b> | <b>37,017</b>   |
| Basic and diluted net loss per share from continuing operations                                      | \$ 0.01                        | \$ 0.02    | \$ 0.02                      | \$ 0.05      |   |
| Weighted average number of shares outstanding used in computing basic and diluted net loss per share | 59,294,165                     | 47,697,713 | 57,278,987                   | 44,736,029   |   |

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



## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

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

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

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



## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

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

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

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

\* Represents an amount less than \$1.

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

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

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

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

|   |            |      |           |       |             |            |
|---|------------|------|-----------|-------|-------------|------------|
| Elimination of deferred stock compensation due to implementation of SFAS 123(R)           | -          | -    | (1,395)   | 1,395 | -           | -          |
| Stock-based compensation related to shares and options granted to directors and employees | 200,000    | * -  | 1,168     | -     | -           | 1,168      |
| Reclassification due to application of EITF 00-19   | -          | -    | 7,191     | -     | -           | 7,191      |
| Stock-based compensation related to options and shares granted to service providers       | 1,147,225  | -    | 453       | -     | -           | 453        |
| Warrants issued to convertible note holder  | -          | -    | 11        | -     | -           | 11         |
| Warrants issued to loan holder  | -          | -    | 110       | -     | -           | 110        |
| Beneficial conversion feature related to convertible bridge loans                         | -          | -    | 1,086     | -     | -           | 1,086      |
| Net loss  | -          | -    | -         | -     | (3,924)     | (3,924)    |
| Balance as of December 31, 2006   | 24,201,812 | \$ 1 | \$ 24,427 | \$ -  | \$ (26,244) | \$ (1,816) |

\* Represents an amount less than \$1.

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

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

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

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

Conversion of convertible  
loans

|  |            |      |           |      |             |            |
|--|------------|------|-----------|------|-------------|------------|
| Exercise of warrants   | 1,860,000  | * -  | -         | -    | -           | -          |
| Exercise of options  | 17,399     | * -  | 3         | -    | -           | 3          |
| Stock issued for private<br>placement at \$0.1818 per<br>unit, net of finder's fee | 8,625,000  | 1    | 1,499     | -    | -           | 1,500      |
| Subscription of shares<br>for private placement at<br>\$0.1818 per unit            | -          | -    | 281       | -    | -           | 281        |
| Net loss   | -          | -    | -         | -    | (3,472)     | (3,472)    |
| Balance as of December 31,<br>2008   | 55,241,418 | \$ 3 | \$ 33,881 | \$ - | \$ (35,960) | \$ (2,076) |

\* Represents an amount less than \$1.

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

UNAUDITED

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

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

|   | Common stock<br>Number | Common stock<br>Amount | Additional<br>paid-in<br>capital | Deferred<br>stock-based<br>compensation | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>(deficiency) |
|---|------------------------|------------------------|----------------------------------|---|--|--|
| Balance as of December 31,<br>2008  | 55,241,418             | \$ 3                   | \$ 33,881                        | \$ -                                    | \$ (35,960)  | \$ (2,076)                             |
| Conversion of convertible<br>loans  | 2,500,000              | -                      | 200                              | -                                       | -  | 200                                    |
| Stock-based compensation<br>related to options and stock<br>granted to service providers          | 2,050,000              | -                      | 183                              | -                                       | -  | 183                                    |
| Stock-based compensation<br>related to stock and options<br>granted to directors and<br>employees | -                      | -                      | 199                              | -                                       | -  | 199                                    |
| Subscription of shares<br>for private placement   |                        |                        | 259                              |   |  | 259                                    |
| Net loss  | -                      | -                      | -                                | -                                       | (1,057)  | (1,057)                                |
| Balance as of June 30, 2009   | 59,791,418             | \$ 3                   | \$ 34,722                        | \$ -                                    | \$ (37,017)  | \$ (2,292)                             |

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



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

UNAUDITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|   | Six months<br>ended June 30, |            | Period from<br>September 22,<br>2000<br>(inception date)<br>through June 30,<br>2009 |
|---|------------------------------|------------|--|
|   | 2009                         | 2008       | 2009   |
|   | Unaudited                    |            | Unaudited  |
| <b>Cash flows from operating activities:</b>  |                              |            |  |
| Net loss  | \$ (1,057)                   | \$ (2,118) | \$ (37,017)  |
| 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   | 79                           | 73         | 599  |
| Erosion of restricted cash  | 1                            | (5)        | (6)  |
| Accrued severance pay, net  | (2)                          | 6          | 28   |
| Accrued interest on loans   | 7                            | 101        | 436  |
| Amortization of discount on short-term loans  | -                            | 42         | 1,865  |
| Change in fair value of options and warrants  | -                            | -          | (795)  |
| Expenses related to stocks and options granted to service providers                                     | 183                          | 84         | 20,349   |
| Amortization of deferred stock-based compensation related to options granted to employees and directors | 199                          | 349        | 5,088  |
| Decrease (increase) in accounts receivable and prepaid expenses   | (32)                         | 69         | (53)   |
| Increase (decrease) in trade payables   | 65                           | (129)      | 809  |
| Increase in other accounts payable and accrued expenses   | 337                          | 385        | 2,004  |
| Net cash used in continuing operating activities  | (220)                        | (1,143)    | (6,529)  |
| Net cash used in discontinued operating activities  | -                            | -          | (23)   |
| Total net cash used in operating activities   | (220)                        | (1,143)    | (6,552)  |
| <b>Cash flows from investing activities:</b>  |                              |            |  |
| Purchase of property and equipment  | -                            | (153)      | (1,080)  |
| Restricted cash   | -                            | -          | (29)   |
| Increase in lease deposit   | 5                            | (4)        | (7)  |
| Net cash used in continuing investing activities  | 5                            | (157)      | (1,116)  |
| Net cash used in discontinued investing activities  | -                            | -          | (16)   |
| Total net cash used in investing activities   | 5                            | (157)      | (1,132)  |

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



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

UNAUDITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|  | Six months<br>ended June 30, |          | Period from<br>September 22,<br>2000<br>(inception date)<br>through June 30,<br>2009 |
|--|------------------------------|----------|--|
|  | 2009                         | 2008     | 2009   |
|  | Unaudited                    |          | Unaudited  |
| <b>Cash flows from financing activities:</b>             |                              |          |  |
| Proceeds from issuance of common stock and warrants      | \$ 259                       | \$ 1,241 | \$ 6,127   |
| Proceeds from loans, notes and issuance of warrants net  | -                            | -        | 2,061  |
| Credit from bank   | (44)                         | 27       | 28   |
| Repayment of loans                                       | -                            | -        | (601)  |
| Proceeds from exercise of warrants and options           | -                            | 3        | 28   |
| Net cash provided by continuing financing activities     | 215                          | 1,271    | 7,643  |
| Net cash provided by discontinued financing activities   | -                            | -        | 43   |
| Total net cash provided by financing activities          | 215                          | 1,271    | 7,686  |
| Increase (decrease) in cash and cash equivalents         | -                            | (29)     | 2  |
| Cash and cash equivalents at the beginning of the period | 2                            | 86       | -  |
| Cash and cash equivalents at end of the period           | 2                            | 57       | 2  |

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 1

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GENERAL

A. On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), an Israeli corporation, to acquire certain stem cell technology (see Note 3). Subsequent to this agreement, the Company decided to focus on the development of novel cell therapies for neurodegenerative diseases, particularly Parkinson's and ALS disease, based on the acquired technology and research to be conducted and funded by the Company. Following the licensing agreement dated July 8, 2004, the management of the Company decided to abandon all old activities related to the sale of the digital data recorder product. The discontinuation of this activity was accounted for under the provision of Statement of Financial Accounting Standard ("SFAS") 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

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

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

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

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

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

GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the six months ended on June 30, 2009, resulted in a net loss of \$1,057 and the Company's balance sheet reflects a net stockholders' deficiency of \$2,292, accumulated deficit of \$37,017 and working capital deficiency of \$2,935. These conditions raise substantial doubt about the Company's ability to continue to operate as a going concern. The Company's ability to continue operating as a "going concern" is dependent on several factors, among them is its ability to raise sufficient additional working capital. Management's plans in this regard include, among others, raising additional cash from current and potential stockholders and lenders.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 1

-

GENERAL (Cont.)

GOING CONCERN (Cont.)

Accordingly, as a result of the current economic situation and the difficulty to raise immediate fund to support all of the Company's projects, the Company decided to reduce its activity and downsize its workforce and focus only on the effort to reach clinical trials in ALS in 2009-2010.

The Company also reduced its general and administrative expenses and ceased and delayed some development projects until it is able to obtain sufficient financing. There can be no assurance that sufficient revenues will be generated and that additional funds will be available on terms acceptable to the Company, or at all.

The Company depends on Ramot to conduct its research and development activities. As discussed in Note 4, the Company did not make a certain payment in 2008 to Ramot. As a result, the Company did not meet the payment schedule according to the agreement with Ramot and Ramot is entitled to terminate the research and license agreement.

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, 2008, are applied consistently in these financial statements.

Recently Issued Accounting Standards

FSP FAS 157-4

In April 2009 the FASB issued FASB staff position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FSP applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements, except as discussed in paragraphs 2 and 3 of statement 157. The FSP is Effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively.

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what Statement 157 states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Recently Issued Accounting Standards (Cont.)

FSP FAS 157-4 provides guidance on (1) estimating the fair value of an asset or liability (financial and nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased and (2) identifying transactions that are not orderly. The adoption of this standard did not have any impact on the consolidated results of operations or financial position of the Company.

SFAS 165

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for the interim or annual financial periods ending after June 15, 2009. The adoption of this standard did not have any impact on the consolidated results of operations or financial position of the Company.

FSP FAS 115-2 and FAS 124-2

In April 2009 the FASB issued FASB staff position 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("OTTI") for investment in debt securities. This FSP applies to all entities and are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted.

Under the FSP, the primary change to the OTTI model for debt securities is the change in focus from an entity's intent and ability to hold a security until recovery. Instead, an OTTI is triggered if (1) an entity has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. In addition, the FSP changes the presentation of an OTTI in the income statement if the only reason for recognition is a credit loss (i.e., the entity does not expect to recover its entire amortized cost basis). That is, if the entity has the intent to sell the security or it is more likely than not that it will be required to sell the security, the entire impairment (amortized cost basis over fair value) will be recognized in earnings.

However, if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security, but the security has suffered a credit loss, the impairment charge will be separated into the credit loss component, which is recorded in earnings, and the remainder of the impairment charge, which is recorded in other comprehensive income (OCI). The adoption of this standard did not have any impact on the consolidated results of operations or financial position of the Company.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Recently Issued Accounting Standards (Cont.)

SFAS 166

In June 2009 the FASB issued SFAS No.166 "Accounting for Transfers of Financial Assets" ("SAFS No. 166"). SAFS No. 166 is a revision to Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and a company's continuing involvement in transferred financial assets. SFAS No. 166 will be effective at the start of a company's first fiscal year beginning after November 15, 2009. The Company is currently examining this new standard; The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial statements.

NOTE 3 - UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in a condensed format and include the consolidated financial operations of the Company and its fully owned subsidiary as of June 30, 2009 and for the six 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, 2009, are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

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

**NOTE 4 - RESEARCH AND LICENSE AGREEMENT**

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

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

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

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

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

As of August 13, 2009, the Company paid to Ramot the first three payments total of \$400 but has not made yet the last two payments total of \$240 and for the extended research period. As a result, the Company is in breach of the new agreement with Ramot and Ramot may terminate the research and license agreement.

In January 29 2009, the Company received a breach warning from Ramot and the parties are currently negotiating an amendment to postpone the payments.

B. The Company's total current obligation to Ramot as of June 30, 2009 is in the amount of \$961. The amount includes \$665 for the extended research period.





BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 5 -

CONSULTING AGREEMENTS

A. On July 8, 2004, the Company entered into two consulting agreements with Prof. Eldad Melamed and Dr. Daniel Offen (together, the "Consultants"), upon which the Consultants shall provide the Company scientific and medical consulting services in consideration for a monthly payment of \$6 each. In addition, the Company granted each of the Consultants, a fully vested warrant to purchase 1,097,215 shares of Common Stock at an exercise price of \$0.01 per share. The warrants issued pursuant to the agreement were issued to the Consultants effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005.

B. As of June 30, 2009, the Company has a total obligation of \$298 for services rendered by the Consultants.

NOTE 6 -

SHORT-TERM LOANS

On April 13, 2008, the Company entered into a new agreement with a lender which the lender agreed to partially defer and partially convert to the Company's Common Stock the payment of \$1,250 owed by the Company to the lender based on the payment agreement between the two parties.

Pursuant to the new agreement, the Company agreed to pay \$250 of the Debt in accordance with the following schedule:

| Payment date       | Amount |
|--------------------|--------|
| May 30, 2008       | 50     |
| July 31, 2008      | 50     |
| September 30, 2008 | 50     |
| December 31, 2008  | 50     |
| February 28, 2009  | 50     |

In addition, the Company issued 2,857,142 shares of common stock to the lender in lieu of the repayment of \$1,000 of the Debt.

The lender agreed that upon payment of the foregoing amounts in accordance with the foregoing schedule and the receipt of the stock grant, all of the Company's outstanding obligations owed to the lender under the notes will be satisfied in full. The lender also waived any breach or default that may have arisen prior to the date of the new agreement from the failure of the Company to make payments to the lender under any of past agreements.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 6 -

SHORT-TERM LOANS (Cont.)

The Company paid to the lender first payment and on April 6, 2009 the Company and the lender agreed to convert the entire debt of \$200 to 2,500,000 restricted shares of common stock.

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

NOTE 7

- STOCK CAPITAL

A. The rights of Common Stock are as follows:

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

The Common Stock is 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 for total proceeds of \$149 at a price of \$0.8 per share.
- d) On July 27, 2005, the Company issued to investors 165,000 shares of Common Stock for total proceeds of \$99 at a price of \$0.6 per share.

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

## NOTE 7

## - STOCK CAPITAL (Cont.)

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

## 1. Private placements: (Cont.)

e) On August 11, 2005, the Company signed a private placement agreement with investors for the sale of up to 1,250,000 units at a price of \$0.8 per unit. Each unit consists of one share of Common Stock and one warrant to purchase one share of Common Stock at \$1.00 per share. The warrants are exercisable for a period of three years from issuance. On September 30, 2005, the Company sold 312,500 units for total net proceeds of \$225. On December 7, 2005, the Company sold 187,500 units for total net proceeds of \$135.

f) On July 2, 2007, the Company entered into an investment agreement, pursuant to which the Company agreed to sell up to 27,500,000 shares of Common Stock, for an aggregate subscription price of up to \$5 million and warrants to purchase up to 30,250,000 shares of Common Stock. Separate closings of the purchase and sale of the shares and the warrants shall take place as follows:

| Purchase date     | Purchase price  | Number of<br>subscription<br>shares | Number of<br>warrant<br>shares |
|-------------------|---|-------------------------------------|--------------------------------|
| August 30, 2007   | \$1,250<br>(includes \$250<br>paid as a<br>convertible<br>loan (Note 8i)) | 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                      |

At each closing date, the Company shall deliver to the investor the number of shares and warrants, subject to customary closing conditions and the delivery of funds, described above. The warrants shall have the following exercise prices: (i) the first 10,083,333 warrants have an exercise price of \$0.20 per share; (ii) the next 10,083,333 warrants will have an exercise price of \$0.29 per share; and (iii) the final 10,083,334 warrants issued will have an exercise price of \$0.36 per share. All warrants will expire on November 5, 2011.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7 -

STOCK CAPITAL (Cont.)

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

1. Private placements: (Cont.)

f) Cont.

As of June 30, 2009, the investor completed payment of the first four installments and \$ 540 of the fifth installment and the Company issued to the investor and its designee an aggregate of 19,250,000 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 , a warrant to purchase 10,083,333 shares of common stock at an exercise price of \$0.29 per share and a warrant to purchase 1,008,334 shares of common stock at an exercise price of \$0.36 per share. The warrants may be exercised at any time and expire on November 5, 2011.

On August 18, 2009, the Company entered into an amendment to the investment agreement (See note 8).

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 June 30, 2009, 875,000 shares of Common Stock had been issued as an introduction fee.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7

- STOCK CAPITAL (Cont.)

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

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

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

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

As of June 30, 2009, 3,671,684 options are available for future grants.

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

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

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

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

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7

- STOCK CAPITAL (Cont.)

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

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

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

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

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

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

## NOTE 7

## - STOCK CAPITAL (Cont.)

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

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

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

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

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

|  | Six months ended<br>December 31,<br>2009 |  |                                       | Year ended<br>December 31,<br>2008 |  |                                       |
|--|--|--|---------------------------------------|------------------------------------|--|---------------------------------------|
|  | Amount of<br>options                     | Weighted<br>average<br>exercise<br>price<br>\$ | Aggregate<br>intrinsic<br>value<br>\$ | Amount of<br>options               | Weighted<br>average<br>exercise<br>price<br>\$ | Aggregate<br>intrinsic<br>value<br>\$ |
| Outstanding at beginning<br>of period              | 5,433,361                                | 0.244  | -                                     | 5,280,760                          | 0.372  | -                                     |
| Granted  | 1,350,000                                | 0.067  | -                                     | 170,000                            | 0.49   | -                                     |
| Exercised  | -  | -  | -                                     | (17,399)                           | 0.15   | -                                     |
| Outstanding at end of<br>period                    | 6,783,361                                | 0.209  | -                                     | 5,433,361                          | *0.244   | -                                     |
| Vested and<br>expected-to-vest at end<br>of period | 4,371,684                                | 0.243  | -                                     | 4,324,437                          | 0.238  | -                                     |



BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7

- STOCK CAPITAL (Cont.)

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

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

b) Restricted shares to directors:

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

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

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

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

3. Shares and warrants to service providers:

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

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

## NOTE 7

## - STOCK CAPITAL (Cont.)

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

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

## a) Warrants:

| Issuance date           | Number of warrants issued | Exercised | Forfeited | Outstanding | Exercise Price \$ | Warrants exercisable | Exercisable through |
|-------------------------|---------------------------|-----------|-----------|-------------|-------------------|----------------------|---------------------|
| November 2004           | 12,800,845                | 3,141,925 | 40,000    | 9,618,920   | 0.01              | 9,618,920            | November 2012       |
| December 2004           | 1,800,000                 | 1,800,000 |           | -           | 0.00005           | —                    |                     |
| February 2005           | 1,894,808                 |           | 1,894,808 | -           | 2.5               | -                    |                     |
| May 2005                | 47,500                    |           |           | 47,500      | 1.62              | 47,500               | May 2010            |
| June 2005               | 30,000                    |           |           | 30,000      | 0.75              | 30,000               | June 2010           |
| August 2005             | 70,000                    |           | 70,000    | -           | 0.15              | -                    | -                   |
| September 2005          | 3,000                     | 3,000     |           | -           | 0.15              | -                    | -                   |
| September 2005          | 36,000                    |           |           | 36,000      | 0.75              | 36,000               | September 2010      |
| September-December 2005 | 500,000                   |           | 500,000   | -           | 1                 | -                    | -                   |
| December 2005           | 20,000                    | 20,000    |           | -           | 0.15              | -                    | -                   |
| December 2005           | 457,163                   |           |           | 457,163     | 0.15              | 457,163              | July 2010           |
| February 2006           | 230,000                   |           |           | 230,000     | 0.65              | 230,000              | February 2008       |
| February 2006           | 40,000                    |           |           | 40,000      | 1.5               | 40,000               | February 2011       |
| February 2006           | 8,000                     |           |           | 8,000       | 0.15              | 8,000                | February 2011       |
| February 2006           | 189,000                   | 97,696    | 91,304    | -           | 0.5               | -                    | -                   |
| May 2006                | 50,000                    |           |           | 50,000      | 0.0005            | 50,000               | May 2016            |
| May -December 2006      | 48,000                    |           |           | 48,000      | 0.35              | 48,000               | May - December 2011 |
| May -December 2006      | 48,000                    |           |           | 48,000      | 0.75              | 48,000               | May - December 2011 |
| May 2006                | 200,000                   |           |           | 200,000     | 1                 | 200,000              | May 2011            |
| June 2006               | 24,000                    |           |           | 24,000      | 0.15              | 24,000               | June 2011           |
| May 2006                | 19,355                    |           |           | 19,355      | 0.15              | 19,355               | May 2011            |
| October 2006            | 630,000                   | 630,000   |           | -           | 0.3               | -                    | -                   |
| December 2006           | 200,000                   |           | 200,000   | -           | 0.45              | -                    | -                   |
| March 2007              | 200,000                   |           |           | 200,000     | 0.47              | 200,000              |                     |

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|                |            |           |           |            |           |                       |
|----------------|------------|-----------|-----------|------------|-----------|-----------------------|
|                |            |           |           |            |           | March 2012            |
| March 2007     | 500,000    |           | 500,000   | 0.47       | 375,000   | March 2017            |
| March 2007     | 50,000     |           | 50,000    | 0.15       | 50,000    | March 2010            |
| March 2007     | 15,000     |           | 15,000    | 0.15       | 15,000    | February 2012         |
| February 2007  | 50,000     | 50,000    | -         | 0.45       | -         | -                     |
| March 2007     | 225,000    | 225,000   | -         | 0.45       | -         | -                     |
| March 2007     | 50,000     |           | 50,000    | 0.45       | 50,000    | March 2010            |
| April 2007     | 33,300     | 25,000    | 8,300     | 0.45       | 8,300     | April 2010            |
| May 2007       | 250,000    | 250,000   | -         | 0.45       | -         | -                     |
| July 2007      | 500,000    |           | 500,000   | 0.39       | 319,444   | 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 2011         |
| July 2007      | 30,000     |           | 30,000    | 0.45       | 30,000    | July 2009             |
| July 2007      | 100,000    |           | 100,000   | 0.45       | 100,000   | July 2010             |
| October 2007   | 200,000    |           | 200,000   | 0.15       | 200,000   | August - October 2017 |
| November 2007  | 2,520,833  |           | 2,520,833 | 0.20       | 2,520,833 | November 2011         |
| November 2007  | 2,016,667  |           | 2,016,667 | 0.29       | 2,016,667 | November 2011         |
| April 2008     | 4,537,500  |           | 4,537,500 | 0.29       | 4,537,500 | November 2011         |
| August 2008    | 3,529,166  |           | 3,529,166 | 0.29       | 3,529,166 | November 2011         |
| August 2008    | 1,083,333  |           | 1,083,333 | 0.36       | 1,008,333 | November 2011         |
| November 2008  | 100,000    |           | 100,000   | 0.15       | 100,000   | September 2018        |
| April 2009     | 200,000    |           | 200,000   | 0.1        | 0         | April 2019            |
| A              |            |           |           |            |           |                       |
|                | 43,523,970 | 5,692,621 | 3,346,112 | 34,485,237 |           | 33,979,682            |

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7

- STOCK CAPITAL (Cont.)

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

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

a) Warrants: (Cont.)

The fair value for the warrants to service providers was estimated on the date of grant using a Black-Scholes option pricing model, with the following weighted-average assumptions for the year ended December 31, 2008 and December 31, 2007; weighted average volatility of 126%-165% and 108%, 93%-115%, respectively, risk free interest rates of 0.37%-2.12% and 3.3%-4.5%, respectively dividend yields of 0% and a weighted average life of the options of 1-9 and 6-7 years, respectively.

b) Shares:

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

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

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7

- STOCK CAPITAL (Cont.)

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

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

b) Shares:

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

In January 2006, the Company issued to two service providers 350,000 restricted shares at a purchase price of \$0.00005 par value under the U.S Stock Option and Incentive Plan of the Company. The restricted shares are subject to the Company's right to repurchase them within 12 months from the grant date as follows: (i) in the event that the service providers breach their obligations under the agreement, the Company shall have the right to repurchase the restricted shares at a purchase price equal to the par value; and (ii) in the event that the service providers have not breached their obligations under the service agreements, the Company shall have the right to repurchase the restricted shares at a purchase price equal to the fair market value of the restricted shares. Related compensation in the amount of \$23 was recorded as general and administrative expense.

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

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

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

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

NOTE 7

- STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

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

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

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

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

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

On April 12, 2007, the Company issued to its filing and printing service providers 80,000 shares of Common Stock. The shares issued are for the \$15 payable to the service provider. Related compensation in the amount of \$30 was recorded as general and administrative expense. In addition, the Company is obligated to issue the filing and printing service providers additional shares, in the event that the total value of the shares previously issued (as quoted on the Over-the-Counter Bulletin Board or such other exchange where the Common Stock is quoted or listed) is less than \$0.20, on March 20, 2008. In no event shall the Company issue more than 30,000 additional shares to the service providers. As a result, the Company recorded a liability in the amount of \$20.

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

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

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

## NOTE 7:

## -STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

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

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

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

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

A summary of the Company's stock awards activity related to shares issued to service providers and related information is as follows:

|                                       | Six months ended<br>June 30,<br>2009 |   | Year ended<br>December 31,<br>2008 |   |
|---------------------------------------|--------------------------------------|---|------------------------------------|---|
|                                       | Amount of<br>shares                  | Weighted<br>average<br>issue<br>price<br>\$ | Amount of<br>shares                | Weighted<br>average<br>issue<br>price<br>\$ |
| Outstanding at beginning<br>of period | 2,941,224                            | 0.85  | 2,851,224                          | 0.86  |
| Issued                                | 2,050,000                            | 0.075                                       | 90,000                             | 0.40  |
| Outstanding at end of<br>period       | 4,991,224                            | 0.27  | 2,941,224                          | 0.85  |

## BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

## NOTE 7:

## - 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 employees directors and service providers, was comprised, at each period, as follows:

|   | Three months<br>Ended June 30, |      | Six months<br>ended June 30, |      | Period from<br>September 22, 2000<br>(inception date)<br>through June 30, |
|---|--------------------------------|------|------------------------------|------|---|
|   | 2009                           | 2008 | 2009                         | 2008 | 2009  |
|   | Unaudited                      |      | Unaudited                    |      | Unaudited   |
| Research and development                    | 151                            | 60   | 181                          | 105  | 16,806  |
| General and administrative                  | 114                            | 68   | 202                          | 273  | 7,785   |
| Financial expenses, net                     | -                              | 36   | -                            | 36   | 56  |
| Total stock – based<br>compensation expense | 265                            | 164  | 383                          | 414  | 24,647  |

## NOTE 8

## - SUBSEQUENT EVENTS

On August 18, 2009 the Company entered into an amendment to the investment agreement ("The Amendment" ) with the investor as follows:

- A. The investor shall invest the remaining amount of the original investment agreement at Price Per Share of \$0.12 in monthly installments of not less than \$50 starting August, 2009.
- B. The exercise price of the last 10,083,334 warrants will decrease from an exercise price of \$0.36 per share to \$0.29 per share.
- C. All warrants will expire on November 5, 2013 instead of November 5, 2011.
- D. The Price Per Share of the investment agreement shall decreased from \$0.1818 to \$0.12. Therefore the Company shall adjust the number of Common Shares issuable pursuant the investment agreement retroactively and issue immediately to the investor additional 9,916,667 Common Shares.
- E. The investor shall have the right to cease payments in the event that the price per share as of the closing on five consecutive trading days shall decrease to \$0.05.



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, 2008. In some cases you can identify such "forward-looking statements" by the use of words like "may," "will," "should," "could," "expects," "hopes," "anticipates," "believes," "intends," "plans," "estimates," "predicts," "likely," "potential," or "continue" or the negative of any of these terms or similar variations. These "forward-looking statements" are based on certain assumptions that we have made as of the date hereof. To the extent these assumptions are not valid, the associated "forward-looking statements" and projections will not be correct. Although we believe that the expectations reflected in these "forward-looking statements" are reasonable, we cannot guarantee any future results, levels of activity, performance or achievements. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we may not inform you if they do and we undertake no obligation to do so. We caution investors that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, prospective investors should carefully consider the information set forth under the caption "Risk Factors" in addition to the other information set forth herein and elsewhere in our other public filings with the Securities and Exchange Commission.

Company Overview

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

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

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

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

Our aim is to provide neural stem cell transplants that (i) "replace" damaged dopaminergic nerve cells and diseased tissue by augmentation with healthy dopamine producing cells; and (ii) maintain, preserve and restore the damaged and remaining dopaminergic cells in the patient's brain, protecting them from further degeneration.

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

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

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

As a result of limited cash resources at this time and the faster path through necessary clinical trials, the Company determined in the fourth quarter of 2008 to focus all of its efforts on ALS, and will for now will not allocate resources towards PD or other Neurodegenerative diseases. As a result of this new focus and the Company's limited cash resources, the Company significantly downsized its employee base and employs only scientific employees that meet the Company immediate goal: to conduct clinical trials in ALS patients in Israel.

#### 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, 2009, the Company has not earned any revenues from operations. The Company does not expect to earn revenues from operations until 2013. In addition, the Company has incurred operating costs and other expenses of approximately \$543,000 during the six months ended June 30, 2009, and approximately \$37,017,000 for the period from inception (September 22, 2000) until June 30, 2009. Operating expenses incurred since inception were approximately \$12,254,000 for general and administrative expenses and \$22,003,000 for research and development costs.



#### Research and Development, net:

Research and development expenses for the six months ended June 30, 2009 and 2008 were \$499,000 and \$873,000, respectively. In addition, the Company's grant from The Office of the Chief Scientist decreased by \$255,000 to \$40,000 for the six months ended June 30, 2009 from \$295,000 for the six months ended June 30, 2008.

Research and development expenses, net for the three months ended June 30, 2009 and 2008 were \$210,000 and \$283,000, respectively. In addition, the Company's grant from The Office of the Chief Scientist decreased by \$248,000 to \$40,000 for the three months ended June 30, 2009 from \$288,000 for the six months ended June 30, 2008. Therefore the gross Research and development expenses for the three months ended June 30, 2009 decreased by \$321,000 to \$250,000 for the three months ended June 30, 2009 from \$571,000 for the six months ended June 30, 2008.

The decrease in gross research and development expenses for each of the three and six month periods ended June 30, 2009 is primarily due to (i) the decrease in salary expenses as we had fewer employees due to the downsizing of the employee base in connection with the Company's current financial condition and (ii) the reduction in development activities as the Company decided to delay development activities in PD and other neurodegenerative diseases and focus solely on ALS.

#### General and Administrative

General and administrative expenses for the six months ended June 30, 2009 and 2008 were \$565,000 and \$1,023,000, respectively.

General and administrative expenses for the three months ended June 30, 2009 and 2008 were \$314,000 and \$479,000, respectively.

The decrease in general and administrative expenses for each of the three and six month periods ended June 30, 2009 is primarily due to the decrease in general and administrative expenses as the Company has decreased activities due to the Company's current financial condition.

#### Financial Expenses

Financial expenses decreased by \$229,000 to income of \$7,000 for the six months ended June 30, 2009 from expenses of \$222,000 for the six months ended June 30, 2008.

Financial expenses decreased by \$75,000 to \$19,000 for the three months ended June 30, 2009 from \$94,000 for the three months ended June 30, 2008.

The decrease in financial expenses is primarily attributable to a decrease in amortization of the discount on short-term convertible loans and the exchange differentials derived from the changes in the exchange rate between the New Israeli Shekel to U.S. dollar in the three and six months ended June 30, 2009.

#### Net Loss

Net loss for the six months ended June 30, 2009 was \$1,057,000, as compared to a net loss of \$2,118,000 for the six months ended June 30, 2008. Net loss per share for the six months ended June 30, 2009 was \$0.02, as compared to a net loss per share of \$0.05 for the six months ended June 30, 2008.

The weighted average number of shares of common stock used in computing basic and diluted net loss per share for the six months ended June 30, 2009 was 57,278,987, compared to 44,736,029 for the six months ended June 30, 2008.



Net loss for the three months ended June 30, 2009 was \$543,000, as compared to a net loss of \$856,000 for the three months ended June 30, 2008. Net loss per share for the three months ended June 30, 2009 was \$0.01, as compared to a net loss per share of \$0.02 for the three months ended June 30, 2008.

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, 2009 was 59,294,165, compared 47,697,713 for the three months ended June 30, 2008.

The decrease in the net loss for each of the three and six month periods ended June 30, 2009 is mainly due to a (i) reduction in Company activities, (ii) downsizing of employees and (iii) amortization of discount on short-term convertible loans.

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 and six months ended June 30, 2009 was due to (i) the issuance of shares in a private placement, (ii) the conversion of convertible loans, (iii) the exercise of warrants and (iv) the issuance of shares to service providers.

#### Liquidity and Capital Resources

The Company has financed its operations since inception primarily through private sales of its common stock and warrants and the issuance of convertible promissory notes. At June 30, 2009, we had \$89,000 in total current assets and \$3,024,000 in total current liabilities.

Net cash used in operating activities was \$220,000 for the six months ended June 30, 2009. Cash used for operating activities in the six months ended June 30, 2009 was primarily for payment of salaries and fees to our employees, consultants, subcontractors and service providers.

Net cash provided by financing activities was \$215,000 for the six months ended June 30, 2009 and is primarily attributable to funds received from ACCBT Corp. under a certain subscription agreement.

We have a licensing agreement with Ramot under which we owe approximately \$95,000 per quarter. In addition, we have an agreement with a lender under which we must pay approximately \$25,000 over the next three months. Our other material cash needs for the next 12 months will include payment of employee salaries, payments for pre-clinical and clinical trials in ALS, lease payments, payments to Ramot, payments with respect to patents, payment of construction fees for facilities to be used in our research and development, payment of fees to our consultants and legal advisors and capital equipment expenses.

On July 2, 2007, we entered into a subscription agreement with ACCBT Corp., pursuant to which we agreed to sell and issue (i) up to 27,500,000 shares of our common stock for an aggregate subscription price of up to \$5.0 million, and (ii) for no additional consideration, warrants to purchase up to 30,250,000 shares of our common stock. Subject to certain closing conditions, separate closings of the purchase and sale of the shares and the warrants were scheduled to take place from August 30, 2007 through November 15, 2008. To date, we have received an aggregate of approximately \$4.05 million from ACCBT Corp.

In August 2009 ACCBT Corp and the Company entered into an amendment to the investment agreement (the "Amendment"). Pursuant the Amendment:

(i) ACCBT Corp shall invest the remaining amount of the subscription agreement at a Price Per Share of \$0.12 in monthly installments of not less than \$50,000 starting August, 2009; (ii) the exercise price of the last 10,083,334 warrants issued to ACCBT Corp. will decrease from an exercise price of \$0.36 per share to \$0.29 per share; (iii) all

warrants to purchase shares issued to ACCBT Corp. will expire on November 5, 2013 instead of November 5, 2011; and (iv) the Price Per Share of the subscription agreement shall decreased from \$0.1818 to \$0.12. Therefore, we shall adjust the number of Common Shares issuable pursuant the investment agreement retroactively and issue immediately to ACCBT Corp. an additional 9,916,667 Common Shares.

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, 2009. 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, 2008.



#### 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 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, 2008, which continued to exist as of June 30, 2009:

- The Company did not maintain effective controls over certain aspects of the financial reporting process because we lacked a sufficient complement of personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with the Company's financial reporting requirements. Specifically, our Chief Financial Officer handles all accounting issues of the Company alone as the Company recently terminated the Company's accountant as part of the downsizing of the Company's staff.

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 on Form 10-Q 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

Based on financial condition and if we will raise sufficient fund to finance it, we plan recruit new accountant and 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.

38

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## Changes in Internal Control Over Financial Reporting

Other than as described above, no changes in our internal controls over financial reporting were identified during the quarter ended June 30, 2009 that materially affected, or are reasonably likely to materially affect, such internal control over financial reporting other than those remedial actions disclosed above.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings.

On April 17, 2008, Chapman, Spira & Carson, LLC (“CSC”) filed a breach of contract complaint in the Supreme Court of the State of New York (the “Court”) against the Company. The complaint alleges that CSC performed its obligations to the Company under a consulting agreement entered into between the parties and that the Company failed to provide CSC with the compensation outlined in the consulting agreement. The complaint seeks compensatory damages in an amount up to approximately \$896,667, as well as costs and attorneys’ fees. On June 5, 2008, the Company filed an answer with the Court. The Company believes CSC’s claims are without merit. We intend to vigorously defend our actions. We cannot predict the scope, timing or outcome of this matter. We cannot predict what impact, if any, this matter may have on our business, financial condition, results of operations and cash flow.

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 legal proceedings, other than as described above, the adverse outcome of which, in management’s opinion, would have a material adverse effect on our business, results of operation or financial condition.

### Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors previously disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, 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, 2008 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There has been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, except as follows:

Our business in the foreseeable future will be based on technology licensed from Ramot and if this license were to be terminated for any reason, including failure to make required payments, we would need to change our business strategy and we may be forced to cease our operations. Agreements we have with Ramot impose on us development and commercialization obligations, milestone and royalty payment obligations and other obligations. Under these agreements, we are obligated to pay certain fees to Ramot. If we fail to comply with these obligations, Ramot may have the right to terminate the license. If Ramot elects to terminate our license, we would need to change our business strategy and we may be forced to cease our operations. We currently owe Ramot overdue payments, and we recently received a letter from Ramot informing us of such overdue payments and their rights under the agreements. If we fail to make these payments to Ramot, then Ramot may terminate our license to Ramot’s technology that we license and which is what our business is based upon

Item 5. Other Information.

During the quarter ended June 30, 2009, 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 19, 2009

By: /s/ Rami Efrati  
Name: Rami Efrati  
Title: Chief Executive Officer (Principal Executive Officer)

August 19, 2009

By: /s/ David Stolick  
Name: David Stolick  
Title: Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

| Exhibit<br>Number | Description  |
|-------------------|--|
| 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. |