

BRAINSTORM CELL THERAPEUTICS INC.
Form 10-Q
May 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

For the transition period from _____ to _____

Commission File Number 000-54365

BRAINSTORM CELL THERAPEUTICS INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-8133057 (I.R.S. Employer Identification No.)
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605 Third Avenue, 34th Floor	10158
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New York, NY

(Zip Code)

(Address of principal executive offices)

(646) 666-3188

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

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

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

As of May 1, 2014, the number of shares outstanding of the registrant's Common Stock, \$0.00005 par value per share, was 182,634,618.

TABLE OF CONTENTS

	Page Number
<u>PART I</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>Item 4. Controls and Procedures</u>	46
 <u>PART II</u>	 46
<u>Item 1. Legal Proceedings</u>	46
<u>Item 1A. Risk Factors</u>	47
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
<u>Item 5. Other Information</u>	47
<u>Item 6. Exhibits</u>	47

PART I: FINANCIAL INFORMATION

SPECIAL NOTE

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

Item 1. Financial Statements.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2014

UNAUDITED

U.S. DOLLARS IN THOUSANDS

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2014

UNAUDITED

U.S. DOLLARS IN THOUSANDS

INDEX

	Page
<u>Consolidated Balance Sheets</u>	5
<u>Consolidated Statements of Operations</u>	6
<u>Statements of Changes in Stockholders' Equity (Deficiency)</u>	7 - 16
<u>Consolidated Statements of Cash Flows</u>	17
<u>Notes to Consolidated Financial Statements</u>	18 - 37

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

(Except share data)

	March 31, 2014 Unaudited	December 31, 2013 Audited
ASSETS		
Current Assets:		
Cash and cash equivalents	3,027	3,503
Account receivable	792	910
Prepaid expenses	34	33
Total current assets	3,853	4,446
Long-Term Assets:		
Prepaid expenses	13	22
Total long-term investments	13	22
Property and Equipment, Net	327	258
Total assets	4,193	4,726
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade payables	326	228
Accrued expenses	1,034	877
Other accounts payable	247	227
Total current liabilities	1,607	1,332
Long-Term Liabilities:		
Warrants issued to investors	1,726	655
Total long-term liabilities	1,726	655
Total liabilities	3,333	1,987

Stockholders' Equity:		
Stock capital: (Note 6)	8	8
Common stock of \$0.00005 par value - Authorized: 800,000,000 shares at March 31, 2014 and December 31, 2013; Issued and outstanding: 176,803,587 and 176,263,587 shares at March 31, 2014 and December 31, 2013 respectively.		
Additional paid-in-capital	55,370	55,138
Deficit accumulated during the development stage	(54,518)	(52,407)
Total stockholders' equity	860	2,739
Total liabilities and stockholders' equity	4,193	4,726

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands

(Except share data)

	Three months		Period from
	ended March 31,		September 22,
	2014	2013	2000 (inception
	Unaudited		date) through
			March 31,
			2014
			Unaudited
Operating costs and expenses:			
Research and development, net	680	522	29,786
General and administrative	351	559	21,203
Total operating costs and expenses	1,031	1,081	50,989
Financial expenses (income), net	1,080	1	3,390
Other income	-	-	(132)
Operating loss	2,111	1,082	54,247
Taxes on income	-	-	107
Loss from continuing operations	2,111	1,082	54,354
Net loss from discontinued operations	-	-	164
Net loss	2,111	1,082	54,518
Basic and diluted net loss per share from continuing operations	0.01	0.01	
Weighted average number of shares outstanding used in computing basic and diluted net loss per share	176,305,587	150,953,117	

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

7

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

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

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

	Common stock Number	Capital	Additional paid-in compensation	Deferred Stock - based stage	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of December 31, 2006	24,201,812	\$ 1	\$ 24,427	\$ -	\$ (26,244)	\$ (1,816)
Stock-based compensation related to options and shares granted to service providers	544,095		1,446	-	-	1,446
Warrants issued to convertible note holder	-	-	109	-	-	109
Stock-based compensation related to shares and options granted to directors and employees	200,000	* -	1,232	-	-	1,232
Beneficial conversion feature related to convertible loans	-	-	407	-	-	407
Conversion of convertible loans	725,881	* -	224	-	-	224
Exercise of warrants	3,832,621	* -	214	-	-	214
Stock issued for private placement at \$0.1818 per unit, net of finder's fee	11,500,000	1	1,999	-	-	2,000
Net loss	-	-	-	-	(6,244)	(6,244)
Balance as of December 31, 2007	41,004,409	\$ 2	\$ 30,058	\$ -	\$ (32,488)	\$ (2,428)
Stock-based compensation related to options and stock granted to service providers	90,000	-	33	-	-	33
Stock-based compensation related to stock and options granted to directors and employees	-	-	731	-	-	731
Conversion of convertible loans	3,644,610	* -	1,276	-	-	1,276
Exercise of warrants	1,860,000	* -	-	-	-	-
Exercise of options	17,399	* -	3	-	-	3
Stock issued for private placement at \$0.1818 per unit, net of finder's fee	8,625,000	1	1,499	-	-	1,500
Subscription of shares for private placement at \$0.1818 per unit	-	-	281	-	-	281
Net loss	-	-	-	-	(3,472)	(3,472)

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

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Stage	Deficit Accumulated during the development equity (deficiency)	Total stockholders' equity (deficiency)
Balance as of December 31, 2010	95,832,978	\$ 5	\$ 39,696	\$ -	\$ (40,160)	\$ (459)	
Stock-based compensation related to options and stock granted to service providers	474,203	-	449	-	-	449	
Stock-based compensation related to stock and options granted to directors and employees	2,025,040	-	1,135	-	-	1,135	
Conversion of convertible note	755,594	-	140	-	-	140	
Exercise of options	1,648,728	-	243	-	-	243	
Exercise of warrants	1,046,834	-	272	-	-	272	
Issuance of shares for private placement	14,160,933	1	3,601	-	-	3,602	
Issuance of shares on account of previously subscribed shares	10,499,999	-	24	-	-	24	
Net loss	-	-	-	-	(3,918)	(3,918)	
Balance as of December 31, 2011	126,444,309	\$ 6	\$ 45,560	\$ -	\$ (44,078)	\$ 1,488	

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity
Balance as of December 31, 2011	126,444,309	\$ 6	\$ 45,560	\$ -	\$ (44,078)	\$ 1,488
Stock-based compensation related to options and stock granted to service providers	794,423	-	195	-	-	195
Stock-based compensation related to stock and options granted to directors and employees	885,000	-	560	-	-	560
Exercise of options	1,182,606	(*)	137	-	-	137
Exercise of warrants	959,729	(*)	9	-	-	9
Issuance of shares for private placement	19,818,968	1	5,022	-	-	5,023
Net loss	-	-	-	-	(3,430)	(3,430)
Balance as of December 31, 2012	150,085,035	\$ 7	\$ 51,483	\$ -	\$ (47,508)	\$ 3,982

* Represents an amount less than \$1.

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity
Balance as of December 31, 2012	150,085,035	\$ 7	\$ 51,483	\$ -	\$ (47,508)	\$ 3,982
Stock-based compensation related to options and stock granted to service providers	809,696		197	-	-	197
Stock-based compensation related to stock and options granted to directors and employees	760,000		674	-	-	674
Issuance of shares for public offering	23,529,411	1	2,496	-	-	2,497
Issuance of shares for private placement	833,334	(*)	250	-	-	250
Conversion of convertible loans	126,111	-	30	-	-	30
Exercise of options	120,000	(*)	8	-	-	8
Net loss	-	-	-	-	(4,899)	(4,899)
Balance as of December 31, 2013	176,263,587	\$ 8	\$ 55,138	-	\$ (52,407)	\$ 2,739

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

U.S. dollars in thousands

(Except share data)

	Common stock Number	Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity
Balance as of December 31, 2013	176,263,587	\$ 8	\$ 55,138	-	\$ (52,407)	\$ 2,739
Stock-based compensation related to options and stock granted to service providers	540,000	-	110	-	-	110
Stock-based compensation related to stock and options granted to directors and employees	-	-	122	-	-	122
Net loss	-	-	-	-	(2,111)	(2,111)
Balance as of March 31, 2014	176,803,587	\$ 8	\$ 55,370	-	\$ (54,518)	\$ 860

* Represents an amount less than \$1.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

(Except share data)

	Three months ended March 31,		Period from September 22, 2000 (inception date) through March 31, 2014(*)	
	2014	2013	2014(*)	
	Unaudited		Unaudited	
Cash flows from operating activities:				
Net loss	(2,111)	(1,082)	(54,518))
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	25	33	1,280	
Accrued interest on loans	-	-	451	
Amortization of discount on short-term loans	-	-	1,864	
Change in fair value of options and warrants			(795))
Expenses related to shares and options granted to service providers	110	128	22,018	
Amortization of deferred stock-based compensation related to options granted to employees	122	203	8,177	
Decrease (increase) in accounts receivable and prepaid expenses	117	128	(826))
Increase (decrease) in trade payables and convertible note	98	(112)	799	
Increase in other accounts payable and accrued expenses	177	32	1,787	
Revaluation of warrants	1,071	-	897	
Erosion of restricted cash	-	-	(6))
Net cash used in continuing operating activities	(391)	(670)	(18,708))
Net cash used in discontinued operating activities	-	-	(23))
Total net cash used in operating activities	(391)	(670)	(18,731))
Cash flows from investing activities:				
Purchase of property and equipment	(94)	(20)	(1,425))
Restricted cash	-	-	6	
Changes in short-term deposit	-	997	-	
Investment in lease deposit	9	(6)	(13))
Net cash (used in) provided by continuing investing activities	(85)	971	(1,432))
Net cash used in discontinued investing activities	-	-	(16))
Total net cash (used in) provided by investing activities	(85)	971	(1,448))

Cash flows from financing activities:			
Proceeds from issuance of Common stock, net	-	250	20,918
Proceeds from loans, notes and issuance of warrants, net	-	-	2,061
Proceeds from exercise of warrants and options	-	-	785
Repayment of short-term loans	-	-	(601)
Net cash provided by continuing financing activities	-	250	23,163
Net cash provided by discontinued financing activities	-	-	43
Total net cash provided by financing activities	-	250	23,206
Increase (decrease) in cash and cash equivalents	(476)	551	3,027
Cash and cash equivalents at the beginning of the period	3,503	1,317	-
Cash and cash equivalents at end of the period	3,027	1,868	3,027

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 1 - GENERAL

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

B. On May 21, 2004, the former major stockholders of the Company entered into a purchase agreement with a group of private investors, who purchased from the former major stockholders 6,880,000 shares of the then issued and outstanding 10,238,000 shares of the Company's Common Stock, \$0.00005 par value (the "Common Stock").

C. On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), to acquire certain stem cell technology (see Note 4). Subsequent to this agreement, the Company decided to focus on the development of novel cell therapies for neurodegenerative diseases based on the acquired technology and research to be conducted and funded by the Company.

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

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

E. On November 18, 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, as defined above, owns all operational property and equipment.

The Common Stock is registered and publicly traded on the OTC Markets Group service of the National Association of Securities Dealers, Inc. under the symbol BCLI.

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

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

H. Since its inception, the Company has devoted substantially all of its efforts to research and development, recruiting management and technical staff, acquiring assets and raising capital. In addition, the Company has not generated revenues. Accordingly, the Company is considered to be in the development stage, as defined in "Accounting and reporting by development Stage Enterprises" ASC 915-10.

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

On February 23, 2011, the Company submitted, to the MOH, all the required documents. Following approval of the MOH, a Phase I/II clinical study for ALS patients using the Company's autologous NurOwn stem cell therapy (the "Clinical Trial") was initiated in June 2011.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 1 - GENERAL (Cont.):

J. In February 2011, the U.S. Food and Drug Administration (“FDA”) granted orphan drug designation to the Company’s NurOwn autologous adult stem cell product for the treatment of ALS.

K. On February 19, 2013, Brainstorm Ltd established a wholly-owned subsidiary, Brainstorm Cell Therapeutics UK Ltd. (“Brainstorm UK”). Brainstorm UK will act on behalf of the parent Company in the EU.

L. On February 21, 2013, Brainstorm UK filed a request for Orphan Medicinal Product Designation by the European Medicine Agency (EMA) for its Autologous Bone Marrow derived Mesenchyme Stromal cells Secreting Neurotropic factors (MSC-NTF, NurOwn).

M. Effective April 3, 2013, BCT entered into an agreement with Dana-Farber Cancer Institute (“Dana-Farber”) to provide cGMP-compliant clean room facilities for production of the Company’s NurOwn™ stem cell candidate during its upcoming Phase II ALS trial in the United States. The Company’s Phase II trial, will be conducted at Massachusetts General Hospital (“MGH”), the University of Massachusetts (“UMass”) Hospital and the Mayo Clinic. The Connell and O’Reilly Cell Manipulation Core Facility at Dana-Farber will produce NurOwn for the MGH and UMass Hospital clinical sites.

N. On April 18, 2013, the stockholders of the Company authorized the Board of Directors of the Company, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company’s Certificate of Incorporation to effect a reverse stock split of the Company’s issued and outstanding shares of common stock by a ratio of between 1-for-10 and 1-for-20, inclusive, without further approval or authorization of the Company’s stockholders. A reverse stock split of the Company’s shares wasn’t performed and this authorization expired April 18, 2014.

O. On July 17, 2013, the European Commission granted Orphan Drug Designation to the Company’s NurOwn autologous adult stem cell product for the treatment of ALS.

On September 27, 2013, the Company announced that it recently completed treatment of the 12 patients in its **ALS P**.Phase IIa dose-escalating clinical trial with the Company's NurOwn™ technology. The Company was informed that one patient in the study expired due to a medical condition unrelated to the Clinical Trial.

The Clinical Trial is being performed at Hadassah Medical Center in Jerusalem, Israel, under the direction of Prof. Dimitrios Karussis, M.D., Ph.D., head of Hadassah's Multiple Sclerosis Center and a member of the International Steering Committees for Bone Marrow and Mesenchymal Stem Cells Transplantation in Multiple Sclerosis (MS). The study is designed to establish the safety and preliminary efficacy of NurOwn at increasing dosages.

On December 4, 2013, a Notice of Intention to Grant from the European Patent Office (EPO) was issued for the Company's patent application entitled "Isolated Cells and Populations Comprising Same for the Treatment of **CNS Q**.Diseases" (European serial number EP06766101.7) . This patent relates to the production method for the company's proprietary stem cells induced to secrete large quantities of neurotrophic factors for the treatment of neurodegenerative diseases.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 1 - GENERAL (Cont.):

R. On February 11, 2014, a Notice of Allowance was issued from the U.S. Patent Office for the same patent application as above, U.S. serial number 11/727,583.

S. On March 4, 2014, a Notice of Allowance was issued from the U.S. Patent Office for the same patent application as above, U.S. serial number 12/994,761.

T. On March 14, 2013, the Company signed a definitive agreement with the Mayo Clinic in Rochester, Minnesota to conduct its Phase II clinical trial of NurOwn™ in amyotrophic lateral sclerosis (ALS), pending FDA approval. In addition, Mayo's Human Cell Therapy Laboratory will manufacture the NurOwn cells for their clinical trial participants.

U. On March 24, 2014, BCT signed a definitive agreement with the Massachusetts General Hospital (MGH) in Boston, MA to conduct a Phase II clinical trial of NurOwn™ in amyotrophic lateral sclerosis (ALS), pending FDA approval.

V. On April 28, 2014 the Company announced that the US Food and Drug Administration (FDA) has approved commencement of its Phase II clinical trial with NurOwn™ in patients with Amyotrophic Lateral Sclerosis (ALS). The trial will be launched initially at the Massachusetts General Hospital (MGH) in Boston, MA and the University of Massachusetts Memorial (UMass) Hospital in Worcester, MA following Institutional Review Board (IRB) approvals. Dana-Farber Cancer Institute's Connell O'Reilly Cell Manipulation Core Facility will manufacture the NurOwn™ cells for these two clinical sites. The trial will also be conducted at the Mayo Clinic in Rochester, Minnesota. (See Note 7E).

GOING CONCERN:

As reflected in the accompanying financial statements, the Company's operations for the three months ended March 31, 2014, resulted in a net loss of \$2,111. The Company's balance sheet reflects an accumulated deficit of \$54,518. These conditions, together with the fact that the Company is a development stage Company and has no revenues nor are revenues expected in the near future, raise substantial doubt about the Company's ability to continue to operate as a going concern. The Company's ability to continue operating as a "going concern" is dependent on several factors, among them is its ability to raise sufficient additional working capital.

In 2009, the Company decided to focus only on the effort to commence clinical trials for ALS and such trials did commence in 2011.

In July 2012, the Company raised \$5.7 million, gross, in a public offering (See Note 6B 1 (i)). In August 2013, the Company raised \$4 million, gross, in a public offering (See Note 6B 1 (l)). However, there can be no assurance that additional funds will be available on terms acceptable to the Company, or at all.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2013 are applied consistently in these financial statements.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to 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 wholly-owned subsidiary as of March 31, 2014 and for the three months then ended, in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2014, are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

NOTE 4 - RESEARCH AND LICENSE AGREEMENT

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

The Company is to pay Ramot royalties on Net Sales on a Licensed Product by Licensed Product and jurisdiction by jurisdiction basis as follow:

- So long as the making, producing, manufacturing, using, marketing, selling, importing or exporting of such
- a) Licensed Product is covered by a Valid Claim or is covered by Orphan Drug Status in such jurisdiction – 5% of all Net Sales.
 - b) In the event the making, producing, manufacturing, using, marketing, selling, importing or exporting of such Licensed Product is not covered by a Valid Claim and not covered by Orphan Drug status in such jurisdiction – 3%

of all Net Sales until the expiration of 15 years from the date of the First Commercial Sale of such Licensed Product in such jurisdiction.

NOTE 5 - CONSULTING AGREEMENTS

On July 8, 2004, the Company entered into two consulting agreements with Prof. Eldad Melamed and Dr. Daniel Offen (together, the "Consultants"), under which the Consultants provide the Company scientific and medical consulting services in consideration for a monthly payment of \$6 each. In addition, the Company granted each of the Consultants, a fully vested warrant to purchase 1,097,215 shares of Common Stock at an exercise price of \$0.01 A. per share. The warrants issued pursuant to the agreement were issued to the Consultants effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005. As of September 2010, all the above warrants had been exercised. In June 2012 an amendment was signed with Dr. Daniel Offen, according to which the company pays Daniel Offen a monthly payment of \$6, out of which \$3 in cash and \$3 by grant of Company stock.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

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Notes to Consolidated Financial Statements

NOTE 5 - CONSULTING AGREEMENTS (Cont.):

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

On August 1, 2012, the Company approved additional grants of an aggregate 623,077 shares of Common Stock to D. the Consultants, for services rendered from January 1, 2011 through June 30, 2012. Related compensation in the amount of \$162 was recorded as research and development expense.

On January 16, 2013, the Company granted the Consultants an aggregate of 216,000 shares of Common Stock for E. their services from January 1, 2012 through December 31, 2012. Related compensation in the amount of \$54 was recorded as research and development expense.

F. On November 13, 2013, the Company approved grants of an aggregate 450,000 shares of Common Stock to the Consultants, for services rendered during January 1, 2013 through September 30, 2013 (the "2013 Shares").

G. On March 24, 2014, the Company approved grants of an aggregate 90,000 shares of Common Stock to the Consultants for services rendered in 2014, and issued such shares together with the 2013 Shares.

NOTE 6 - STOCK CAPITAL

A. The rights of Common Stock are as follows:

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

dividends, if declared.

The Common Stock is registered and publicly traded on the OTC Markets Group service of the National Association of Securities Dealers, Inc. under the symbol BCLI.

B. Issuance of shares, warrants and options:

1. Private placements and public offering:

(a) During 2004 and 2005 the Company issued, in separate transactions, 8,861,875 shares of Common Stock of the Company for total proceeds of \$308

(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 consisted 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. All warrants are no longer valid

(c) 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 \$0.80 per unit. Each unit consisted of one share of Common Stock and one warrant to purchase one share of Common Stock at \$1.00 per share. The warrants were 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. All warrants are no longer valid.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

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Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

1. Private placements and public offering: (Cont.):

In July 2007, the Company entered into an investment agreement, that was amended in August 2009, according to which for an aggregate subscription price of up to \$5 million, the Company issued 41,666,667 shares of Common Stock and a warrant to purchase 10,083,333 shares of Common Stock at an exercise price of \$0.20 per share and a (d) warrant to purchase 20,166,667 shares of common stock at an exercise price of \$0.29 per share. The warrants may be exercised at any time and expire on November 5, 2013. In May 2012 the warrants were extended by additional 18 months, through May 5, 2015.

In January 2011, the Company and an investor signed an agreement to balance the remaining amount due to the investor, totaling \$20, against the remaining balance of the investment and the Company issued the above shares and warrants.

In addition, the Company issued an aggregate of 1,250,000 shares of Common Stock to a related party as an introduction fee for the investment. As of the balance sheet date, no warrants have been exercised.

In January 2010, the Company issued 1,250,000 units to a private investor for total proceeds of \$250. Each unit (e) consisted of one share of Common Stock and a two-year warrant to purchase one share of Common Stock at \$0.50 per share. All warrants are no longer valid.