

BRAINSTORM CELL THERAPEUTICS INC
Form 10-K/A
December 28, 2011

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

FORM 10-K/A
(Amendment No. 1)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 333-61610

BRAINSTORM CELL
THERAPEUTICS INC.

(Exact Name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10158
(Zip Code)

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

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:

Title of each class
Common Stock, \$0.00005 par value

Name of each exchange on which registered
OTC Markets Group

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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 preceding 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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer as of June 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter), was \$13,930,908.

As of March 29, 2011, the number of shares outstanding of the registrant's common stock, \$0.00005 par value per share, was 118,317,625.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the "Definitive Proxy Statement") to be filed with the Securities and Exchange Commission relative to the registrant's 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this annual report.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment No. 1”) of Brainstorm Cell Therapeutics Inc. (the “Company”) amends the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which the Company previously filed with the Securities and Exchange Commission on March 31, 2011 (the “Form 10-K”).

The Company is filing this Amendment No. 1 to provide the reissued Report of Independent Registered Public Accounting Firm from the Company’s predecessor auditor, Kost Forer Gabbay & Kasierer as required by Rule 2-05 of Regulation S-X.

The Company has also made the following changes to its Consolidated Financial Statements:

1. The Company has labeled as unaudited amounts for the periods from the Company’s inception (September 22, 2000) to March 31, 2004 presented in the Company’s Statements of Changes in Stockholders’ Equity (Deficiency);
2. The Company has included a footnote to the cumulative column presented on the Statement of Operations that indicates that the Company’s net loss of \$163,000 for the period from inception (September 22, 2000) through March 31, 2004, which is classified as discontinued operations, is unaudited; and
3. The Company has included a footnote to the cumulative column presented on the Statement of Cash Flows that quantifies the amount of operating, investing and financing cash flows for the period from inception (September 22, 2000) through March 31, 2004, which are classified as cash flows from discontinued operations, indicating such amounts are unaudited.

The Company is also providing a reissued Report of Independent Registered Public Accounting Firm from the Company’s current auditor, Brightman Almagor Zohar & Co., to reflect the changes to the Consolidated Financial Statements.

For convenience and ease of reference, the Company is filing its Consolidated Financial Statements in their entirety with this Amendment No. 1. Other than the addition of the reissued auditors’ reports and the changes indicated above, there have been no changes to these Consolidated Financial Statements.

Additionally, Part IV, Item 15 has been amended to include the Company’s currently dated certifications of the Company’s principal executive officer and principal financial officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Part IV, Item 15 has also been amended to include the Consent of Kost Forer Gabbay & Kasierer and an updated Consent of Brightman Almagor Zohar & Co. Other than the items outlined above, there are no changes to the Form 10-K. No attempt has been made in this Amendment No. 1 to modify or update the disclosures presented in the Form 10-K, including the exhibits to the Form 10-K. Except as otherwise specifically noted, all information contained herein is as of December 31, 2010 and does not reflect any events or changes that have occurred subsequent to that date. Accordingly, this Amendment No. 1 should be read in conjunction with our filings made with the SEC subsequent to the filing of the Form 10-K, including any amendments to those filings, if any.

The Company is not required to and has not updated any forward-looking statements previously included in the Form 10-K.

BRAINSTORM CELL THERAPEUTICS, INC.

ANNUAL REPORT ON FORM 10-K/A

(AMENDMENT NO. 1)

YEAR ENDED DECEMBER 31, 2010

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

U.S. DOLLARS IN THOUSANDS
(Except share data)

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

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

U.S. DOLLARS IN THOUSANDS
(Except share data)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
BRAINSTORM CELL THERAPEUTICS Inc. (A Development Stage Company)

We have audited the accompanying consolidated balance sheet of BRAINSTORM CELL THERAPEUTICS Inc. and subsidiary (a development stage company) (the "Company") as of December 31, 2010 and 2009, and the related consolidated statement of income, stockholders' deficiency, and cash flows for each of the two years in the period ended December 31, 2010 and for the period from April 1, 2004 to December 31, 2010. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on the financial statements based on our audits.

The financial statements for the period from April 1, 2004 through December 31, 2007, were audited by other auditors. The consolidated financial statements for the period from April 1, 2004 through December 31, 2007 included a net loss of \$32,325,000. Our opinion on the consolidated statements of operations, changes in stockholders' deficiency and cash flows for the period from April 1, 2004 through December 31, 2010, insofar as it relates to amounts for prior periods through December 31, 2007, is based solely on the report of other auditors. The other auditors report dated April 13, 2008 expressed an unqualified opinion, and included an explanatory paragraph concerning an uncertainty about the Company's ability to continue as a going concern, and regarding the status of the Company research and development license agreement with Ramot.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditor, such consolidated financial statements present fairly, in all material respects, the financial position of BRAINSTORM CELL THERAPEUTICS Inc. and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 and for the period from April 1, 2004 to December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in development of novel cell therapies for neurodegenerative diseases, particularly Parkinson's disease, based on the acquired technology and research to be conducted and funded by the Company as discussed in Note 1 to the financial statements. The Company's working capital deficiency and operating losses since inception through December 31, 2010 raise substantial doubts about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
March 30, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of

BRAINSTORM CELL THERAPEUTICS INC.

(A development stage company)

We have audited the accompanying consolidated balance sheet of Brainstorm Cell Therapeutics Inc. (a development stage company) ("the Company") and its subsidiary as of December 31, 2007, and the related consolidated statements of operations, statements of changes in stockholders' equity (deficiency) and the consolidated statements of cash flows for the year ended December 31, 2007, for the nine months ended December 31, 2006 and 2005 and for the period from March 31, 2004 through December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of December 31, 2007, and the consolidated results of their operations and cash flows for the year ended December 31, 2007, for the nine months ended December 31, 2006 and 2005 and for the period from March 31, 2004 through December 31, 2007, in conformity with U.S generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2007, the Company adopted Financial Accounting Standard Board Statement No. 123(R), "Share-Based Payment".

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1h, the Company has incurred operating losses and has a negative cash flow from operating activities and has a working capital deficiency. As for the Company research and development license agreement with Ramot, see Note 3. These conditions raise substantial doubt about the Company's ability to continue to operate as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Tel-Aviv, Israel
April 13, 2008

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

(Except share data)

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 93 | \$ 1 |
| Other receivable and prepaid expenses (Note 5) | 486 | 86 |
| Total current assets | 579 | 87 |
| Long-Term Investments: | | |
| Prepaid expenses | 1 | 7 |
| Severance pay fund | 90 | 88 |
| Total long-term investments | 91 | 95 |
| Property and Equipment, Net (Note 6) | 419 | 575 |
| Total assets | \$ 1,089 | \$ 757 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Short term Credit from bank | \$ - | \$ 46 |
| Trade payables | 307 | 600 |
| Other accounts payable and accrued expenses (Note 7) | 979 | 1,418 |
| Short-term convertible note (Note 8) | 137 | 135 |
| Short-term convertible loans (Note 9) | - | 189 |
| Total current liabilities | 1,423 | 2,388 |
| Accrued Severance Pay | 125 | 112 |
| Total liabilities | 1,548 | 2,500 |
| Stockholders' Deficiency: | | |
| Stock capital: (Note 11) | 5 | 4 |
| Common stock of \$0.00005 par value - Authorized: 800,000,000 shares at December 31, 2010 and December 31, 2009; Issued and outstanding: 95,832,978 and 76,309,152 shares at December 31, 2010 and December 31, 2009 respectively. | | |
| Additional paid-in-capital | 39,696 | 35,994 |
| Deficit accumulated during the development stage | (40,160) | (37,741) |
| Total stockholders' deficiency | (459) | (1,743) |
| Total liabilities and stockholders' deficiency | \$ 1,089 | \$ 757 |

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

| | Year ended December 31, | | Period from September 22, 2000 (inception date) through December 31, 2010(*) |
|--|----------------------------|----------------|---|
| | 2010 | 2009 | |
| Operating costs and expenses: | | | |
| Research and development, net (Note 12) | \$1,045 | \$181 | \$ 22,730 |
| General and administrative | 1,544 | 1,569 | 14,798 |
| Total operating costs and expenses | 2,589 | 1,750 | 37,528 |
| Financial (income) expenses, net | (189) | 31 | 2,396 |
| Operating loss | 2,400 | 1,781 | 39,924 |
| Taxes on income (Note 13) | 19 | - | 72 |
| Loss from continuing operations | 2,419 | 1,781 | 39,996 |
| Net loss from discontinued operations | - | - | 164 |
| Net loss | \$2,419 | \$1,781 | \$ 40,160 |
| Basic and diluted net loss per share from continuing operations | \$0.03 | \$0.03 | |
| Weighted average number of shares outstanding used in computing basic and diluted net loss per share | 89,094,403 | 61,151,011 | |

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

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

| | Common stock Number | Common stock 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 June 30, 2001 for cash at \$0.0375 per share | 1,600,000 | *- | 60 | - | - | 60 |
| Contribution of capital | - | - | 8 | - | - | 8 |
| Net loss | - | - | - | - | (17) | (17) |
| Balance as of March 31, 2001(unaudited) | 10,100,000 | 1 | 84 | - | (17) | 68 |
| Contribution of capital | - | - | 11 | - | - | 11 |
| Net loss | - | - | - | - | (26) | (26) |
| Balance as of March 31, 2002 (unaudited) | 10,100,000 | 1 | 95 | - | (43) | 53 |
| Contribution of capital | - | - | 15 | - | - | 15 |
| Net loss | - | - | - | - | (47) | (47) |
| Balance as of March 31, 2003 (unaudited) | 10,100,000 | 1 | 110 | - | (90) | 21 |
| 2-for-1 stock split | 10,100,000 | *- | - | - | - | - |
| Stock issued on August 31, 2003 to purchase mineral option at \$0.065 per share | 100,000 | *- | 6 | - | - | 6 |
| Cancellation of shares granted to Company's President | (10,062,000) | *- | *- | - | - | - |
| Contribution of capital | - | *- | 15 | - | - | 15 |
| Net loss | - | - | - | - | (73) | (73) |
| Balance as of March 31, 2004 (unaudited) | 10,238,000 | \$1 | \$131 | \$ - | \$ (163) | \$ (31) |

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

| | Common stock Number | Common stock Amount | Additional paid-in capital | Deferred Stock - based compensation | Deficit accumulated during the development stage | Total stockholders' equity (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 | | Additional | Deferred | Deficit | Total |
|--|--------------|--------|------------|--------------|--------------|---------------|
| | Number | Amount | paid-in | Stock - | accumulated | stockholders' |
| | | | capital | based | during the | equity |
| | | | | compensation | development | (deficiency) |
| | | | | | stage | |
| Balance as of March 31, 2005 | 20,867,808 | \$1 | \$25,101 | \$ (5,395) | \$ (19,003) | \$ 704 |
| Stock issued on May 12, 2005 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) |
|------------------------------|------------|-----|----------|-------------|--------------|-------------|

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

| | Common stock | | 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, 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 | - | - |
| Stock-based compensation related to shares and options granted to directors and employees | 200,000 | *- | 1,168 | - | - | 1,168 |
| 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 | Common stock Amount | Additional paid-in capital | Deferred Stock - based compensation | 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) |

* 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 | Common stock Amount | Additional paid-in capital | Deferred Stock - based compensation | Deficit accumulated during the development stage | Total stockholders' equity (deficiency) |
|---|------------------------|------------------------|----------------------------------|--|--|--|
| 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 Number | Common stock Amount | Additional paid-in capital | Deferred Stock - based compensation | Deficit accumulated during the development stage | Total stockholders' equity (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 Number | Common stock Amount | Additional paid-in capital | Deferred Stock - based compensation | Deficit accumulated during the development stage | Total stockholders' equity (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 (See also Note 11B.1.f) | 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)

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | Year ended December 31 | | Period from September 22, 2000 (inception date) Through December 31, 2010(*) |
|---|---------------------------|------------|--|
| | 2010 | 2009 | |
| Cash flows from operating activities: | | | |
| Net loss | \$(2,419) | \$(1,781) | \$ (40,160) |
| Less - loss for the period from discontinued operations | - | - | 164 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | 162 | 168 | 698 |
| amortization of deferred charges | - | - | 150 |
| Severance pay, net | 11 | (6) | 35 |
| Accrued interest on loans | - | 19 | 448 |
| Amortization of discount on short-term loans | - | - | 1,864 |
| Change in fair value of options and warrants | - | - | (795) |
| Expenses related to shares and options granted to service providers | 96 | 775 | 21,037 |
| Amortization of deferred stock-based compensation related to options granted to employees | 388 | 409 | 5,686 |
| Increase in accounts receivable and prepaid expenses | (400) | (65) | (486) |
| Increase (decrease) in trade payables and convertible note | 45 | (9) | 780 |
| Increase (decrease) in other accounts payable and accrued expenses | 48 | (254) | 1,461 |
| Erosion of restricted cash | - | - | (6) |
| Net cash used in continuing operating activities | (2,069) | (744) | (9,124) |
| Net cash used in discontinued operating activities (*) | - | - | (23) |
| Total net cash used in operating activities | (2,069) | (744) | (9,147) |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | (5) | - | (1,085) |
| Restricted cash | - | 35 | 6 |
| Investment in lease deposit | 6 | 4 | (1) |
| Net cash used in continuing investing activities | 1 | 39 | (1,080) |
| Net cash used in discontinued investing activities (*) | - | - | (16) |
| Total net cash provided by (used in) investing activities | 1 | 39 | (1,096) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of Common stock, net | 2,118 | 730 | 8,717 |
| Proceeds from loans, notes and issuance of warrants, net | - | - | 2,061 |
| Credit from bank | (46) | (26) | - |
| Proceeds from exercise of warrants and options | 88 | - | 116 |

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| | | | |
|--|-------|------|--------|
| Repayment of short-term loans | - | - | (601) |
| Net cash provided by continuing financing activities | 2,160 | 704 | 10,293 |
| Net cash provided by discontinued financing activities (*) | - | - | 43 |
| Total net cash provided by financing activities | 2,160 | 704 | 10,336 |
| Increase in cash and cash equivalents | 92 | (1) | 93 |
| Cash and cash equivalents at the beginning of the period | 1 | 2 | - |
| Cash and cash equivalents at end of the period | \$93 | \$1 | 93 |
| Non-cash financing activities: | | | |
| Conversion of a trade payable to Common Stock | \$200 | | |
| Conversion of a other accounts payable to Common Stock | \$487 | | |
| Conversion of convertible note | \$135 | | |
| Conversion of convertible loan | \$189 | | |

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

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

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

Notes to the financial statements

NOTE 1

GENERAL:

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

B. On May 21, 2004, the former major stockholders of the Company entered into a purchase agreement with a group of private investors, who purchased from the former major stockholders 6,880,000 shares of the then issued and outstanding 10,238,000 shares of Common Stock.

C. On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), 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 based on the acquired technology and research to be conducted and funded by the Company.

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

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

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

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

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

H. Since its inception, the Company has devoted substantially most of its efforts to research and development, recruiting management and technical staff, acquiring assets and raising capital. In addition, the Company has not generated revenues. Accordingly, the Company is considered to be in the development stage, as defined in Statement of Financial Accounting Standards No. 7, "Accounting and reporting by development Stage Enterprises" ASC 915-10 (formerly "SFAS No. 7").

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 ALS. The clearance granted by the MOH to initiate the clinical trials is subject to some additional process specifications as well as completion of the sterility validation study for tests performed in the course of the process (in process controls) and at the end of the process. After the balance sheet date, the sterility validation study report was submitted to the MOH for approval (See Note 15 J).

GOING CONCERN:

As reflected in the accompanying financial statements, the Company's operations for the year ended on December 31, 2010, resulted in a net loss of \$2,419 and the Company's balance sheet reflects a net stockholders' deficiency of \$459, accumulated deficit of \$40,160 and working capital deficiency of \$844. 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.

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

Notes to the financial statements

NOTE 1 - GENERAL (Cont.)

Accordingly, as a result of the current economic situation and the difficulty to raise immediate funds to support all of the Company's projects, including Parkinson disease and spinal cord injury, the Company decided to reduce its activity and focus only on the effort to reach clinical trials in ALS in 2010. The Company entered into an agreement with Hadassah Medical Centre to conduct clinical trials in up to 24 ALS patients in 2011. The Company also reduced its general and administrative expenses and ceased and delayed some development projects until it was able to obtain sufficient financing.

After the balance sheet date, the Company raised approximately 4 million dollars from institutional and private investors (see Note 15 E and Note 15 I). 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

A. Basis of presentation:

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis.

B. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. Financial statement in U.S. dollars:

The functional currency of the Company is the U.S dollar ("dollar") since the dollar is the currency of the primary economic environment in which the Company has operated and expects to continue to operate in the foreseeable future. Part of the transactions of the subsidiary, are recorded in new Israeli shekels ("NIS"); however, a substantial portion of the subsidiary's costs is incurred in dollars or linked to the dollar. Accordingly, management has designated the dollar as the currency of its subsidiary's primary economic environment and thus it is their functional and reporting currency.

Transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with the provisions of ASC 830-10 (formerly Statement of Financial Accounting Standard 52), "Foreign Currency Translation". All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as financial income or expenses, as appropriate.

D. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Intercompany balances and transactions have been eliminated upon consolidation.

E. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with maturities of three months or less as of the date acquired.

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

Notes to the financial statements

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Property and equipment:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets.

The annual depreciation rates are as follows:

| | % |
|--|---|
| Office furniture and equipment | 7 |
| Computer software and electronic equipment | 33 |
| Laboratory equipment | 15 |
| Leasehold improvements | Over the shorter of the lease term (including the option) or useful life |

G. Impairment of long-lived assets:

The Company's and its subsidiary's long-lived assets are reviewed for impairment in accordance with ASC 360-10 (formerly Statement of Financial Accounting Standard 144), "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. During 2009 and 2010, no impairment losses were identified.

H. Research and development expenses, net:

Research and development expenses, are charged to the statement of operations as incurred.

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and applied as a deduction from research and development expenses. Such grants are included as a deduction of research and development costs since at the time received it is not probable the Company will generate sales from these projects and pay the royalties resulting from such sales.

I. Severance pay:

The liability of the subsidiary for severance pay is calculated pursuant to the Severance Pay Law in Israel, based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date and is presented on an undiscounted basis.

The subsidiary's employees are entitled to one month's salary for each year of employment or a portion thereof. The subsidiary's liability for all of its employees is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Severance Pay Law in Israel or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies.

Severance expenses for the year ended December 31, 2010 were \$34.

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

Notes to the financial statements

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Accounting for stock-based compensation:

Effective April 1, 2006, the Company adopted ASC 718-10 (formerly Statement of Financial Accounting Standards 123 (Revised 2004)), "Share-Based Payment," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options under the Company's stock plans based on estimated fair values. ASC 718-10 supersedes the Company's previous accounting under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin 107 ("SAB 107") relating to ASC 718-10. The Company has applied the provisions of SAB 107 in its adoption of ASC 718-10.

ASC 718-10 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations.

The Company recognizes compensation expense for the value of non-employee awards, which have graded vesting, based on the accelerated attribution method over the requisite service period of each award, net of estimated forfeitures.

The Company recognizes compensation expense for the value of employee awards that have graded vesting, based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures.

The Company estimates the fair value of restricted shares based on the market price of the shares at the grant date and estimates the fair value of stock options granted using a Black-Scholes options pricing model. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility and the expected option term (the time from the grant date until the options are exercised or expire). Expected volatility was calculated based upon actual historical stock price movements over the period, equal to the expected option term. The expected option term was calculated for options granted to employees and directors in accordance with SAB 107 and SAB 110, using the "simplified" method. Grants to non-employees are based on the contractual term. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term.

K. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of shares outstanding during each year, plus the dilutive potential of the Common Stock considered outstanding during the year, in accordance with ASC 260-10 (formerly Statement of Financial Accounting Standard 128), "Earnings per Share".

All outstanding stock options and warrants have been excluded from the calculation of the diluted loss per share for the year ended December 31, 2010 and December 31, 2009, since all such securities have an anti-dilutive effect.

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

Notes to the financial statements

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Income taxes:

The Company and its subsidiary account for income taxes in accordance with ASC 740-10 (formerly Statement of Financial Accounting Standard 109), "Accounting for Income Taxes." This Statement requires the use of the liability method of accounting for income taxes, whereby deferred tax asset and liability account balances are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiary provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

In September 2006, the Financial Accounting Standards Board ("FASB") issued ASC 740-10 (formerly FASB interpretation ("FIN") 48), "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109". ASC 740-10 establishes a single model to address accounting for uncertain tax positions. ASC 740-10 clarified the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10 also provides guidance on recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of the provisions of ASC 740-10 did not have an impact on the Company's consolidated financial position and results of operations.

M. Fair value of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable and prepaid expenses, trade payables and other accounts payable approximate their fair value due to the short-term maturity of these instruments.

N. Impact of recently issued accounting standards:

ASU 2010-13 - Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades.

In April 2010, the FASB issued this ASU to clarify the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades.

This update provides amendments to Topic 718 to clarify that employee share-based payment awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should also be classified as an equity award. The update is effective for periods beginning after December 15, 2010. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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

Notes to the financial statements

NOTE 3 - RESEARCH AND LICENSE AGREEMENT

On July 8, 2004, the Company entered into a research and license agreement (the "Original Agreement") with Ramot. The license agreement grants the Company an exclusive, worldwide, royalty-bearing license to develop, use and sell certain stem cell technology. In consideration of the license, the Company was required to remit an upfront license fee payment of \$100; royalties at a rate of 5% of all net sales of products and 30% of all sublicense receipts. In addition, the Company granted Ramot and certain of its designees fully vested warrants to purchase 10,606,415 shares of Common Stock at an exercise price of \$0.01 per share. The Company also agreed to fund, through Ramot, further research in consideration of \$570 per year for an initial two-year period ("initial research period"). The Company also agreed to fund research for a further two-year period if certain research milestones are met additional \$1,140 ("extended research period").

The warrants issued pursuant to the agreement were issued to Ramot and its designees effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005.

On March 30, 2006, the Company entered into an Amended Research and License Agreement with Ramot, for the purpose of amending and restating the Original Agreement. According to the agreement, the initial period was amended to an initial research period of three years. The Amended Research and License Agreement also extends the additional two-year research period in the Original Agreement to an additional three-year research period if certain research milestones are met. The Amended Research and License Agreement retroactively amended the consideration to \$380 per year, instead of \$570 per year. As a consequence, an amount of \$300 was charged to the statement of operations as research and development expenses in the year ended in March 31, 2006. In addition, the Amended Research and License Agreement reduced royalties that the Company may have to pay Ramot, in certain cases, from 5% to 3% of net sales and also reduces the sublicenses receipt from 30% to 20%-25% of sublicense receipts.

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 amended and restated the remaining unpaid balance of \$640 of the original payment schedule for the initial research period.

As of December 24, 2009, the Company had not made the payments totaling \$240.

On December 24, 2009, the Company and Ramot entered into a settlement under which, among other things, the following matters were agreed upon:

- a) Ramot released the Company from the Company's obligation to fund the extended research period in the total amount of \$1,140. Therefore the company removed an amount of \$ 760 from its research and development expenses that had accumulated in the past.
- b)

Past due amounts of \$240 for the initial research period plus interest of \$32 owed by the Company to Ramot was converted into 1,120,000 restricted shares of common stock on December 30, 2009. Ramot deposited the shares with a broker and may sell the shares in the free market after 185 days from the issuance day.

In the event that the total proceeds generated by sales of the shares are less than \$120 on or prior to September 30, 2010 ("September Payment"), then on such date the Company had to pay to Ramot the difference between the aggregate proceeds that had been received by Ramot up to such date, and \$120. In the event that the total proceeds generated by sales of the shares, together with the September 30, 2010 payment, are less than \$240 on or prior to December 31, 2010, then the Company had to pay to Ramot the difference between the proceeds that Ramot had received from sales of the shares up to such date together with the September Payment (if any) that had been transferred to Ramot up to such date, and \$240. Related compensation in the amount of \$51 was recorded as research and development expenses.

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

Notes to the financial statements

NOTE 3 - RESEARCH AND LICENSE AGREEMENT (Cont.)

As of December 31, 2010, Ramot had sold 952,470 shares of Common Stock of the Company out of the 1,120,000 Ramot was issued under the settlement agreement Common Stock for \$200. After the balance sheet date, Ramot sold an additional 167,530 shares Common Stock of the Company for \$35 and the Company paid the remaining balance of \$5 (See note 15 B).

NOTE 4 - CONSULTING AGREEMENTS

A. On July 8, 2004, the Company entered into two consulting agreements with Prof. Eldad Melamed and Prof. 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. As of December 31, 2010 the two consultants exercised the above options to Common Stock of the Company.

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

NOTE 5 - ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

| | December 31, | |
|------------------------|--------------|------|
| | 2010 | 2009 |
| Government authorities | 427 | 14 |
| Prepaid expenses | 59 | 72 |
| | 486 | 86 |

NOTE 6 - PROPERTY AND EQUIPMENT

| | December 31, | |
|--|--------------|-------|
| | 2010 | 2009 |
| Cost: | | |
| Office furniture and equipment | 9 | 9 |
| Computer software and electronic equipment | 105 | 101 |
| Laboratory equipment | 349 | 347 |
| Leasehold improvements | 655 | 655 |
| | 1,118 | 1,112 |
| Accumulated depreciation: | | |
| Office furniture and equipment | 3 | 3 |
| Computer software and electronic equipment | 100 | 84 |

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| | | |
|------------------------|-----|-----|
| Laboratory equipment | 200 | 128 |
| Leasehold improvements | 396 | 322 |
| | 699 | 537 |
| Depreciated cost | 419 | 575 |

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

Notes to the financial statements

NOTE 6 - PROPERTY AND EQUIPMENT (Cont.)

Depreciation expenses for the year ended December 31, 2010 and December 31, 2009 were \$162, and \$168, respectively.

NOTE 7 - OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

| | December 31, | |
|-------------------------------|--------------|-------|
| | 2010 | 2009 |
| Employee and payroll accruals | 471 | 404 |
| Ramot accrued expenses | 60 | - |
| Accrued expenses | 448 | 992 |
| Other | - | 22 |
| | 979 | 1,418 |

NOTE 8 - SHORT-TERM CONVERTIBLE NOTE

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

The gap between the amount the Company owed to the legal advisor and the principal of the Convertible Promissory Note in the amount of \$82 was deducted from general and administrative expenses.

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

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

On February 18, 2011, the legal advisor converted the entire accrued principal and interest into 445,617 shares of Common Stock (See note 15 H).

NOTE 9 - SHORT-TERM CONVERTIBLE LOANS

A. On March 5, 2007, the Company issued a \$150 Convertible Promissory Note to a third party. Interest on the note accrues at the rate of 8% per annum for the first year and 10% per annum afterward. The note will become immediately due and payable upon the occurrence of certain events of default, as defined in the note. The third party has the right at any time prior to the close of business on the maturity date to convert all or part of the outstanding principal and interest amount of the note into shares of Common Stock. The conversion price, as

defined in the note, will be 75% (60% upon the occurrence of an event of default) of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert, but in no event shall the conversion price be greater than \$0.35 or more than 3,000,000 shares of Common Stock be issued. The conversion price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

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

Notes to the financial statements

NOTE 9 - SHORT-TERM CONVERTIBLE LOANS (Cont.)

In addition, the Company granted to the third party warrants to purchase 150,000 shares of Common Stock at an exercise price of \$0.45 per share. The warrants are fully vested and are exercisable at any time after March 5, 2007 until the second anniversary of the issue date. The fair value of the warrants is \$43.

In accordance with ASC 470-20, the Company allocated the proceeds of the convertible note issued with detachable warrants based on the relative fair values of the two securities at the time of issuance. As a result, the Company recorded in its statement of changes in stockholders' equity for 2007 an amount of \$22 with respect to the warrants and the convertible note was recorded in the amount of \$128.

The Company agreed to pay a finder's fee of \$15; \$13 was allocated to deferred charges and is amortized as financial expense over the note period and \$2 was allocated to stockholder's equity.

The BCF, in the amount of \$122, embedded in the note was calculated based on a conversion rate of 60%, as defined upon the occurrence of an event of default and according to the notes' effective conversion price. The amount was recorded as discount on the note against additional paid-in capital and is amortized to financial expense over the note period.

The balance of the convertible loan is comprised as follows:

| | 2010 | December 31, 2009 |
|------------------|------|----------------------|
| Note | - | 150 |
| Accrued interest | - | 39 |
| | - | 189 |

On January 27, 2010, the third party converted the entire accrued principal and interest of Convertible Promissory, into 1,016,109 shares of Common Stock.

B. On September 10, 2007, the Company entered into a payment agreement with the lender with respect to the Convertible Promissory Notes issued during 2006.

Pursuant to the agreement, the Company agreed to pay the outstanding amount due under the Convertible Promissory Notes, plus any accrued interest and penalties, in accordance with the following schedule:

| Payment date | Amount (\$) |
|-------------------|-------------|
| August 16, 2007 | 100 |
| November 30, 2007 | 100 |
| January 15, 2008 | 175 |
| February 28, 2008 | 175 |
| April 30, 2008 | 175 |

| | |
|-------------------|-----|
| June 30, 2008 | 175 |
| August 31, 2008 | 175 |
| November 30, 2008 | 175 |
| January 31, 2009 | 200 |

According to the provisions of ASC 470-60-55 (formerly EITF 02-4), the modification of terms of the convertible loans payments is in the scope of ASC 310-40-15 (formerly FASB No. 15 "Accounting by Debtors and Creditors for Troubled Debt Restructurings"). According to the payment agreement, the carrying amount of the loan was not in excess of total future payments and, therefore, in accordance with ASC 310-40-15, no gain or loss is recognized.

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

Notes to the financial statements

NOTE 9 - SHORT-TERM CONVERTIBLE LOANS (Cont.)

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 above 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 Company paid to the lender the first payment of \$50 and on April 6, 2009 the Company and the lender agreed to convert the entire remaining 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 ASC 860-10 (formerly FASB No 140) "Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities", the Company derecognized the liability with the difference recognized in earning.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. On December 1, 2004, the Israeli subsidiary entered into a lease agreement for the lease of its facilities. The term of the lease was 36 months, with two options to extend. Rent is paid on a quarterly basis in the amount of NIS 23,712 (approximately \$6) per month.

The facilities and vehicles of the Company and its subsidiary are rented under operating leases that expire on various dates. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2010 are as follows:

| Period ending December 31, | Facilities | Vehicles | Total |
|----------------------------|------------|----------|-------|
| 2011 | 100 | 2 | 102 |
| 2012 | 100 | - | 100 |
| | 200 | 2 | 202 |

Total rent expenses for the year ended December 31, 2010 and 2009 were \$135 and \$94 respectively.

B. The Company's subsidiary gave a bank guarantee in the amount of \$36 to secure its obligation under the facilities lease agreement. In July 29, 2009 the lessor exercised his right and withdraw the amount under the bank guarantee from the bank.

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Notes to the financial statements

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Cont.)

C. On March 20, 2006, the Company entered into a Termination Agreement and General Release (the "Termination Agreement") with Dr. Yaffa Beck, the Company's former President and Chief Executive Officer who resigned her position as an officer and director of the Company on November 10, 2005.

As of December 31, 2010, there was still an unpaid balance of \$18 to Dr. Beck under this Termination Agreement.

D. Commitments to pay royalties to the Chief Scientist:

The Subsidiary obtained from the Chief Scientist of the State of Israel grants for participation in research and development for the years, 2009 and 2010, and, in return, the Subsidiary is obligated to pay royalties amounting to 3% of its future sales up to the amount of the grant. The grant is linked to the exchange rate of the dollar and bears interest of Libor per annum.

Through December 31, 2010, total grants obtained amounted to \$864. (See note 15 A)

E. On February 17, 2010 BCT entered into agreement with Hadasit Medical Research Services and Development Ltd ("Hadasit") to conduct clinical trials in ALS patients. In connection with the trials BCT will pay Hadasit \$38,190 per patient totaling up to \$992,880 as well as \$31,250 per month for rental and operation of clean room for a period of 11 months (including one free month rent). In addition, the Company will issue to Hadasit warrants to purchase up to 1,500,000 restricted shares of Company's Common Stock at an exercise price of \$0.001 per share, exercisable for a period of 5 years. The warrants shall vest over the course of the trials as follows: 500,000 upon enrolment of 1/3 of the patients; an additional 500,000 upon enrollment of all the patients and the final 500,000 upon completion of the study.

F. 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 \$897, 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 and cannot predict what impact, if any, this matter may have on the business, its financial condition and results of operations and cash flow.

NOTE 11 - 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:

- 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).

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

NOTE 11 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options:

- b) On February 23, 2005, the Company completed a private placement for sale of 1,894,808 units for total proceeds of \$1,418. Each unit consists of one share of Common Stock and a three-year warrant to purchase one share of Common Stock at \$2.50 per share. This private placement was consummated in three tranches which closed in October 2004, November 2004 and February 2005.
- c) On May 12, 2005, the Company issued to an investor 186,875 shares of Common Stock for total proceeds of \$149 at a price of \$0.8 per share.
- d) On July 27, 2005, the Company issued to investors 165,000 shares of Common Stock for total proceeds of \$99 at a price of \$0.6 per share.
- e) On August 11, 2005, the Company signed a private placement agreement with investors for the sale of up to 1,250,000 units at a price of \$0.8 per unit. Each unit consists of one share of Common Stock and one warrant to purchase one share of Common Stock at \$1.00 per share. The warrants are exercisable for a period of three years from issuance. On September 30, 2005, the Company sold 312,500 units for total net proceeds of \$225. On December 7, 2005, the Company sold 187,500 units for total net proceeds of \$135.
- f) On July 2, 2007, the Company entered into an investment agreement, pursuant to which the Company agreed to sell up to 27,500,000 shares of Common Stock, for an aggregate subscription price of up to \$5 million and warrants to purchase up to 30,250,000 shares of Common Stock.

At each closing date, the Company would deliver to the investor the number of shares and warrants, subject to customary closing conditions and the delivery of funds, described above. The warrants had 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 expired on November 5, 2011.

On August 18, 2009, the Company entered into an amendment to the investment agreement 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 1, 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 Shares of Common Stock issuable pursuant the investment agreement retroactively and

shall issue to the investor additional 9,916,667 Shares of Common Stock for past investment. On October 28, 2009, the 9,916,667 Shares of Common Stock were issued.

(e)The investor shall have the right to cease payments in the event that the price per share as of the closing on five consecutive trading days shall decrease to \$0.05.

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

NOTE 11 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options:

As of December 31, 2010, the investor completed payment of the first five installments and \$730 out of \$750 of the sixth installment and the Company issued to the investor and its designees an aggregate of 31,166,667 shares of common stock and a warrant to purchase 10,083,333 shares of the Company's common stock at an exercise price of \$0.20 per share and a warrant to purchase 15,629,167 shares of common stock at an exercise price of \$0.29 per share. The warrants may be exercised at any time and expire on November 5, 2013. Following the balance sheet date, the investor and the Company signed an agreement to balance amounts due to the investor against the remaining balance of the investment. The Company issued the remaining 10,499,999 shares of common stock and a warrant to purchase 4,539,500 shares of the Company's common stock at an exercise price of \$0.20 per share (See Note 15 C).

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

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

(f) On January 25, 2010, the Company issued 1,250,000 units for total proceeds of \$250 from private investor. Each unit consists of one share of Common Stock and a two-year warrant to purchase one share of Common Stock at \$0.50 per share.

(g) On February 17, 2010 the Company entered into a private investment agreement with three investors. The Company agreed to issue to the investors an aggregate of 6,000,000 shares of Common Stock (2,000,000 for each investor) and two years warrants, to purchase an aggregate of 3,000,000 shares of Common Stock with an exercise price of \$0.5 for an aggregate amount of \$1,500.

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.

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.

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
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Notes to the financial statements

NOTE 11 - STOCK CAPITAL (Cont.)

B. Issuance of shares, warrants and options

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

As of December 31, 2010, 318,351 options are available for future grants.

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

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

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

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

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

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

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

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

compensating related to the option, in the amount of \$84, was recorded as general and administrative expense.

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Notes to the financial statements

NOTE 11 - STOCK CAPITAL (Cont.)

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

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

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

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

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

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

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

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

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

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

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

NOTE 11- STOCK CAPITAL (Cont.)

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

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

On April 13, 2010, the Company, Abraham Israeli and Hadasit Medical Research Services and Development Ltd. (“Hadasit”) entered into an Agreement (the “Agreement”) pursuant to which Mr. Israeli agreed, during the term of the Agreement, to serve as (i) the Company’s Clinical Trials Advisor and (ii) a member of the Company’s Board of Directors. In consideration of the services to be provided by Mr. Israeli to the Company under the Agreement, the Company agreed to grant options annually during the term of the Agreement for the purchase of its Common Stock, as follows:

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

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

* Such options will vest and become exercisable in twelve (12) consecutive equal monthly amounts.

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

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

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

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

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Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

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

| | Year ended December 31, 2010 | | |
|--|------------------------------|--|---------------------------------------|
| | Amount of options | Weighted average exercise price \$ | Aggregate intrinsic value \$ |
| Outstanding at beginning of period | 6,488,361 | 0.187 | |
| Granted | 1,266,666 | 0.176 | |
| Exercised | (443,670) | 0.150 | |
| Cancelled | (418,333) | 0.337 | |
| Outstanding at end of period | 6,893,024 | 0.183 | 1,264,634 |
| Vested and expected-to-vest at end of period | 4,726,358 | 0.19601 | 926,435 |
| | Year ended December 31, 2009 | | |
| | Amount of options | Weighted average exercise price \$ | Aggregate intrinsic value \$ |
| Outstanding at beginning of period | 5,433,361 | 0.244 | - |
| Granted | 1,650,000 | 0.082 | |
| Exercised | - | - | |
| Cancelled | (595,000) | 0.419 | |
| Outstanding at end of period | 6,488,361 | 0.187 | 704,770 |
| Vested and expected-to-vest at end of period | 4,501,417 | 0.222 | 385,553 |

*)

During 2008, the Company extended the exercise period for some of its employees that were terminated. The extension was accounted for as a modification in accordance with ASC 718-10. According to ASC 718-10, modifications are treated as an exchange of the original award, resulting in additional compensation expense based on the difference between the fair value of the new award and the original award immediately before modification. Applying modification accounting resulted in additional compensation expense for the year ended December 31, 2008, amounting to \$6

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

NOTE 11- 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.)

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the fair market value of the Company's shares on December 31, 2010 and 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2010 and 2009.

The options outstanding as of December 31, 2010, have been separated into exercise prices, as follows:

| Exercise price \$ | Options outstanding as of December 31, 2010 | Weighted Average remaining contractual Life Years | Options exercisable as of December 31, 2010 |
|----------------------|---|--|---|
| 0.15 | 4,161,357 | 4.66 | 4,028,024 |
| 0.75 | 80,000 | 4.19 | 80,000 |
| 0.4 | 130,000 | 5.48 | 130,000 |
| 0.47 | 460,000 | 6.22 | 460,000 |
| 0.39 | 145,000 | 6.50 | 145,000 |
| 0.067 | 1,216,667 | 8.05 | 450,000 |
| 0.32 | 30,000 | 9.12 | 0 |
| 0.18 | 670,000 | 9.50 | 0 |
| | 6,893,024 | 5.90 | 5,293,024 |

Compensation expense recorded by the Company in respect of its stock-based employee compensation award in accordance with ASC 718-10 for the year ended December 31, 2010 and 2009 amounted to \$300 and \$402, respectively.

The fair value of the options is estimated at the date of grant using a Black-Scholes options pricing model with the following assumptions used in the calculation:

| | Year ended December 31, 2010 | 2009 |
|---------------------|---------------------------------|-----------|
| Expected volatility | 134%-141% | 140%-143% |

| | | |
|--------------------------------|-------------|-------------|
| Risk-free interest | 2.26%-3.47% | 0.47%-3.85% |
| Dividend yield | 0% | 0% |
| Expected life of up to (years) | 6-10 | 2-10 |
| Forfeiture rate | 0 | 0 |

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Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

b)Restricted shares to directors:

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

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

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

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

3. Shares and warrants to service providers:

The Company accounts for shares and warrant grants issued to non-employees using the guidance of ASC 718-10, "Accounting for Stock-Based Compensation" and EITTF 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.

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Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

a) Warrants:

| Issuance date | Number of warrants issued | Exercised | Forfeited | Outstanding | Exercise Price \$ | Warrants exercisable | Exercisable through |
|-------------------------|---------------------------|-----------|-----------|-------------|-------------------|----------------------|---------------------|
| November 2004 | 12,800,845 | 6,508,708 | 144,724 | 6,147,413 | 0.01 | 6,147,413 | 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 | — | - |
| June 2005 | 30,000 | | | 30,000 | 0.75 | — | - |
| August 2005 | 70,000 | | 70,000 | - | 0.15 | - | - |
| September 2005 | 3,000 | 3,000 | | - | 0.15 | - | - |
| September 2005 | 36,000 | | | 36,000 | 0.75 | — | - |
| September-December 2005 | 500,000 | | 500,000 | - | 1 | - | - |
| December 2005 | 20,000 | 20,000 | | - | 0.15 | - | - |
| December 2005 | 457,163 | | | 457,163 | 0.15 | — | - |
| February 2006 | 230,000 | | | 230,000 | 0.65 | 230,000 | February 2016 |
| February 2006 | 40,000 | | | 40,000 | 1.5 | 40,000 | February 2011 |
| February 2006 | 8,000 | | | 8,000 | 0.15 | 8,000 | February 2011 |
| February 2006 | 189,000 | 97,696 | 91,304 | - | 0.5 | - | - |
| May 2006 | 50,000 | | | 50,000 | 0.0005 | 50,000 | May 2016 |
| May -December 2006 | 48,000 | | | 48,000 | 0.35 | 48,000 | May - December 2011 |
| May -December 2006 | 48,000 | | | 48,000 | 0.75 | 48,000 | May - December 2011 |
| 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 | - | - |

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| | | | | | | |
|----------------|------------|-----------|-----------|-------|------------|---------------------|
| March 2007 | 200,000 | | 200,000 | 0.47 | 200,000 | March 2012 |
| March 2007 | 500,000 | | 500,000 | 0.47 | 458,333 | March 2017 |
| March 2007 | 50,000 | | 50,000 | 0.15 | — | - |
| March 2007 | 15,000 | | 15,000 | 0.15 | 15,000 | February 2012 |
| February 2007 | 50,000 | 50,000 | - | 0.45 | - | - |
| March 2007 | 225,000 | 225,000 | - | 0.45 | - | - |
| March 2007 | 50,000 | | 50,000 | 0.45 | — | - |
| April 2007 | 33,300 | 25,000 | 8,300 | 0.45 | — | - |
| May 2007 | 250,000 | 250,000 | - | 0.45 | - | - |
| July 2007 | 500,000 | | 500,000 | 0.39 | 402,778 | July 2017 |
| September 2007 | 500,000 | | 500,000 | 0.15 | 500,000 | August 2017 |
| August 2007 | 7,562,500 | | 7,562,500 | 0.2 | 7,562,500 | November 2013 |
| July 2007 | 30,000 | 30,000 | - | 0.45 | - | - |
| July 2007 | 100,000 | | 100,000 | 0.45 | — | - |
| October 2007 | 200,000 | | 200,000 | 0.15 | 200,000 | August-October 2017 |
| November 2007 | 2,520,833 | | 2,520,833 | 0.20 | 2,520,833 | November 2013 |
| November 2007 | 2,016,667 | | 2,016,667 | 0.29 | 2,016,667 | November 2013 |
| April 2008 | 4,537,500 | | 4,537,500 | 0.29 | 4,537,500 | November 2013 |
| August 2008 | 3,529,166 | | 3,529,166 | 0.29 | 3,529,166 | November 2013 |
| August 2008 | 1,008,333 | | 1,008,333 | 0.36 | 1,008,333 | November 2013 |
| November 2008 | 100,000 | | 100,000 | 0.15 | 100,000 | September 2018 |
| April 2009 | 200,000 | | 200,000 | 0.1 | - | April 2019 |
| October 2009 | 200,000 | | 200,000 | 0.067 | - | October 2019 |
| October 2009 | 4,537,500 | | 4,537,500 | 0.29 | 4,537,500 | November 2013 |
| January 2010 | 1,250,000 | | 1,250,000 | 0.50 | 1,250,000 | January 2012 |
| February 2010 | 125,000 | | 125,000 | 0.01 | 125,000 | February 2020 |
| February 2010 | 3,000,000 | | 3,000,000 | 0.50 | 3,000,000 | February 2012 |
| | 52,636,470 | 9,059,404 | 3,480,836 | | 40,096,230 | |
| | | | | | 38,778,378 | |

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

Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

The fair value for the warrants to service providers was estimated on the date of grant using a Black-Scholes option pricing model, with the following weighted-average assumptions for the year ended December 31, 2010 and December 31, 2009; weighted average volatility of 140% and 126%-165%, respectively, risk free interest rates of 2.39%-3.14% and 0.37%-2.12%, respectively dividend yields of 0% and a weighted average life of the options of 5-5.5 and 1-9 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.

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

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

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

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

Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

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.

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

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

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

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

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

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

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

Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

b) Shares: (Cont.)

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

On October 1, 2009, the Company issued to its service provider 150,000 shares of the Company's Common Stock. The shares are for financial and investor relation services done by the provider. Related compensation in the amount of \$51 is recorded as general and administrative expense.

On October 2, 2009, the Company issued to its service provider 1,250,000 shares of the Company's Common Stock. The shares are for investor and public relation services. Related compensation in the amount of \$400 is recorded as general and administrative expense.

On December 30, 2009, the Company issued to Ramot 1,120,000 shares of the Company's Common Stock (see note 3 and 15 B).

On December 13, 2009, the Company issued a \$135 Convertible Promissory Note to its legal advisor for \$217 in legal fees accrued through October 31, 2009. Interest on the note accrued at the rate of 4%.

On February 19, 2010, the Company's legal advisor converted the entire accrued principal and interest of outstanding under the note into 402,385 shares of Common Stock.

On January 6, 2010, the Company issued to its service provider 60,000 shares of the Company's common stock. The shares are for \$15 payable to the service provider for insurance and risk management consulting and agency services for three years.

On January 5 2010, the Company issued to its public relation advisors 50,000 shares of the Company's common stock for six months service. The issuance of the shares is part of the agreement with the public relation advisors that entitle to get a monthly grant of 8,333 shares of the Company's common stock

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

On December 16, 2010, the Company granted to its service provider 200,000 shares of the Company's Common Stock. The shares are for investor and public relation services. Related compensation in the amount of \$40 is recorded as general and administrative expense.

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

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

Notes to the financial statements

NOTE 11- STOCK CAPITAL (Cont.)

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

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

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

| | Year ended December 31, 2010 | Weighted average issue price \$ | Year ended December 31, 2009 | Weighted average issue price \$ |
|------------------------------------|------------------------------------|---|------------------------------------|---|
| | Amount of shares | | Amount of shares | |
| Outstanding at beginning of period | 8,225,508 | 0.26 | 2,941,224 | 0.85 |
| Issued | 1,510,000 | 0.2 | 5,284,284 | 0.18 |
| Outstanding at end of period | 9,735,508 | 0.25 | 8,225,508 | 0.26 |

- c) Stock-based compensation and issuance of shares recorded by the Company in respect of shares and warrants granted to service providers amounted to \$96 and \$775 for the year ended December 31, 2010 and 2009, respectively.

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

| | Year ended December 31, 2010 | Year ended December 31, 2009 | Period from September 22, 2000 (inception date) through December 31, 2010 |
|--|------------------------------------|------------------------------------|--|
| Research and development | 325 | 289 | 17,239 |
| General and administrative | 560 | 895 | 9,038 |
| Financial expenses, net | | - | 56 |
| Total stock-based compensation expense | 885 | 1,184 | 26,333 |

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

Notes to the financial statements

NOTE 12- RESEARCH AND DEVELOPMENT, NET

| | December 31, | | Period from September 22, 2000 (inception date) through December 31, 2010 |
|--|--------------|--------|---|
| | 2010 | 2009 | |
| Research and development | 1,385 | 1,069 | 24,756 |
| Less : Ramot reverse accruals (See Note 3) | - | (760) | (760) |
| Less : Participation by the Israeli Office of the Chief Scientist | (340) | (128) | (1,266) |
| | 1,045 | 181 | 22,730 |

NOTE 13- TAXES ON INCOME

A. Tax rates applicable to the income of the subsidiary:

In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

B. Tax laws applicable to the income of the Subsidiary:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are measured based on the changes in the Israeli Consumer Price Index ("CPI").

The Law for the Encouragement of Capital Investments, 1959 ("the Law"):

According to the Law, BCT is entitled to various tax benefits by virtue of "beneficiary enterprise" status granted, as defined by this Law.

In March 2005, the Israeli Parliament passed the Arrangements Law for fiscal year 2005, which includes a broad and comprehensive amendment to the provisions of the Law ("Amendment No. 60 to the Law").

The principal benefits by virtue of the Law are:

Tax benefits and reduced tax rates under the Alternative Track of Benefits:

The Company is tax exempt for a benefit period of two years and in the five/eight subsequent years of the benefit period is subject to a reduced tax rate of 10%-25%.

C. Changes in the tax laws applicable to the income of the Subsidiary:

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law beginning in 2008 and thereafter. Beginning in 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Consumer Price Index carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting in 2008.

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

Notes to the financial statements

NOTE 13- TAXES ON INCOME (Cont.)

D. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

| | December 31, | |
|---|--------------|-----------|
| | 2010 | 2009 |
| Operating loss carryforward | 32,165 | 30,206 |
| Net deferred tax asset before valuation allowance | 13,187 | 12,858 |
| Valuation allowance | (13,187) | (12,858) |
| Net deferred tax asset | - | - |

As of December 31, 2010, the Company has provided valuation allowances of \$13,012 in respect of deferred tax assets resulting from tax loss carryforward and other temporary differences. Management currently believes that because the Company has a history of losses, it is more likely than not that the deferred tax regarding the loss carryforward and other temporary differences will not be realized in the foreseeable future.

E. Available carryforward tax losses:

As of December 31, 2010, the Company has an accumulated tax loss carryforward of approximately \$12,716. Carryforward tax losses in the U.S. can be carried forward and offset against taxable income in the future for a period of 20 years. Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

F. Loss from continuing operations, before taxes on income, consists of the following:

| | Year ended December 31, | |
|---------------|-------------------------|----------|
| | 2010 | 2009 |
| United States | (1,235) | (890) |
| Israel | (1,165) | (891) |
| | (2,400) | (1,781) |

G. Due to the company cumulative losses the effect of ASC 740 as codified from ASC 740-10 (formerly FIN 48) are not material.

H. BCT has not received final tax assessments since its incorporation.

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

Notes to the financial statements

NOTE 14- TRANSACTIONS WITH RELATED PARTIES

| | Year ended December 31, | |
|--|-------------------------|------|
| | 2010 | 2009 |
| A. Fees and related benefits and compensation expenses in respect of options granted to a member of the Board who is a related party | 318 | 27 |

B. As for transactions with Ramot, see Note 3.

NOTE 15- SUBSEQUENT EVENTS

A. In January and February 2011, the Company received additional grants from the Chief Scientific Officer, totaling \$381, as its participation in 2010 Research and Development costs.

B. In January 2011 Ramot exercised additional 167,530 Common Stock of the Company, for \$35, which finalized the sale of the 1,120,000 Common Stock of the Company granted to Ramot for \$235. In February 2011 the Company paid the remaining \$5 and finalized the balance due to Ramot according to the settlement agreement between the parties dated December 24, 2009 (See Note 4).

C. On January 18, 2011 the Company and an investor signed an agreement to balance amounts due to the investor, totaling \$20, against the remaining balance of the investment. The Company issued to the investor 10,499,999 shares of Common Stock and a warrant to purchase 4,539,500 shares of the Company's Common Stock at an exercise price of \$0.20 per share (see Note 15 B 1 (f)).

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

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

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

G. On February 17, 2011, one of the Company's former employees exercised 56,330 options for \$23.

H. On February 18, 2011, the Company's legal advisor converted the entire accrued principal and interest of the Convertible Promissory Note granted on September 15, 2010, totaling \$137, into 445,617 shares of Common Stock (See Note 8).

I. On February 23, 2011, the Company entered into an investment agreement, pursuant to which the Company agreed to sell up to 12,815,000 shares of Common Stock, for an aggregate subscription price of up to \$3.6 million and

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warrants to purchase up to 19,222,500 shares of Common Stock as follows: warrant to purchase 12,815,000 shares of Common Stock at \$0.5 for two years, and warrants to purchase 6,407,500 shares of Common Stock at \$0.28 for one year.

In addition, the Company agreed to pay 10% of the funds received for the distribution services received, out of this amount, 4% will be paid in stock and the remaining 6% in cash.

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

NOTE 15- SUBSEQUENT EVENTS (Cont.)

J. On February 23, 2011, the Company submitted to the MOH, the sterility validation study report, as required in the clearance granted by the MOH to the Company in October 2010, for a Phase I/II clinical trial using the Company's autologous NurOwn™ stem cell therapy in patients with ALS. (See note 1 I).

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

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Annual Report.

(3) Exhibits:

23.1 Consent of Brightman Almagor & Co., a member of Deloitte Touche Tohmatsu

23.2 Consent of Kost Forer Gabbay & Kasierer

31.1 Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with 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.

Date: December 28, 2011

By:

/s/ Adrian Harel

Name: Adrian Harel

Title: Chief Executive Officer and Chief
Operating Officer