

3D SYSTEMS CORP
Form DEF 14A
March 28, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

3D SYSTEMS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
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- (1) Amount Previously Paid:
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- (3) Filing Party:

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333 Three D Systems Circle

Rock Hill, SC 29730

March 28, 2018

Dear Fellow Stockholder:

Please join us at the Annual Meeting of Stockholders of 3D Systems Corporation.

Time: Tuesday, May 15, 2018, at 11:00 a.m., Eastern Time.

Place: 3D Systems Corporation, 333 Three D Systems Circle, Rock Hill, South Carolina 29730.

At the meeting, stockholders will vote on the following items:

The election of the eleven directors named in the accompanying Proxy Statement;

The approval, on an advisory basis, of the compensation paid to our named executive officers;

Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2018; and

A stockholder proposal to reduce the ownership required for stockholders to call a special meeting.

In addition, stockholders will consider and act upon any other matters that may be properly brought before the Annual Meeting or at any adjournments or postponements thereof.

We encourage you to attend the Annual Meeting so that we can review the past year with you, listen to your suggestions, and answer any questions that you may have. Whether or not you plan to attend the Annual Meeting, please vote your shares as soon as possible so that your vote will be counted.

On behalf of the Company and your Board of Directors, we thank you for your continued support.

Sincerely,

Vyomesh I. Joshi

President and Chief Executive Officer

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333 Three D Systems Circle

Rock Hill, SC 29730

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

March 28, 2018

The Annual Meeting of Stockholders of 3D Systems Corporation, a Delaware corporation, will be held:

When: Tuesday, May 15, 2018, at 11:00 a.m., Eastern Time;

Where: 3D Systems Corporation, 333 Three D Systems Circle, Rock Hill, South Carolina, 29730;

Why: For the following purposes:

The election of the eleven directors named in the accompanying Proxy Statement;

The approval, on an advisory basis, of the compensation paid to our named executive officers;

Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2018; and

A stockholder proposal to reduce the ownership required for stockholders to call a special meeting. In addition, stockholders will consider and act upon any other matters that may be properly brought before the Annual Meeting or any adjournments or postponements thereof.

The Proxy Statement accompanying this Notice of Annual Meeting describes these items of business in greater detail.

The record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting is March 19, 2018. We are mailing a Notice of Internet Availability of Proxy Materials commencing on or about March 28, 2018 to all stockholders of record as of the record date. We will send you copies of the accompanying Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2017 upon request by following the instructions in our Notice of Internet Availability of Proxy Materials.

We encourage you to cast your votes on the proposals to be considered at the Annual Meeting electronically by using the website that hosts our Proxy Statement and Annual Report as described on the Notice of Internet Availability. If you have requested delivery of a printed version of the materials, you will receive a proxy card that you may use to vote your shares. You may also vote by telephone as set forth on your proxy card or the Notice of Internet Availability. Regardless of whether you plan to attend the Annual Meeting, we encourage you to vote your shares electronically on the internet, by proxy card or by telephone in case your plans change. Please vote today to ensure that your votes are counted.

If you hold our shares in street name, please vote your shares by following the instructions set forth below in *How to Vote*.

If you are a stockholder of record and attend the Annual Meeting in person, you will be able to vote your shares personally at the Annual Meeting if you so desire, even if you previously voted.

By Order of the Board of Directors

Andrew M. Johnson
Secretary

Rock Hill, South Carolina
March 28, 2018

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**333 Three D Systems Circle
Rock Hill, South Carolina 29730**

PROXY STATEMENT

Dated March 28, 2018

For the Annual Meeting of Stockholders

To Be Held on May 15, 2018

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 15, 2018:

This Proxy Statement, our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Annual Report) and a form of proxy card are available at www.envisionreports.com/DDD

GENERAL INFORMATION

We plan to hold our 2018 Annual Meeting of Stockholders (the Annual Meeting) at the following time and place and for the following purposes:

When: 11:00 a.m., Eastern Time, on Tuesday, May 15, 2018;

Where: 3D Systems Corporation, 333 Three D Systems Circle, Rock Hill, South Carolina 29730;

Why: At the Annual Meeting, stockholders will vote on the following items:

The election of the eleven directors named in this Proxy Statement;

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The approval, on an advisory basis, of the compensation paid to our named executive officers;

Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2018; and

A stockholder proposal to reduce the ownership required for stockholders to call a special meeting.

In addition, stockholders will consider and act upon any other matters that may be properly brought before the Annual Meeting or any adjournments or postponements thereof.

3D System Corporation (the Company, we, and us) is furnishing this Proxy Statement in connection with the solicitation of proxies by our Board of Directors (the Board of Directors or Board) for use at the Annual Meeting and any adjournments or postponements of the Annual Meeting.

This Proxy Statement and related materials are first being made available on or about March 28, 2018. For directions to the location of the Annual Meeting, please call (803) 326-3995.

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RECORD DATE, VOTING SECURITIES AND QUORUM

The record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting is the close of business on March 19, 2018.

Our common stock, par value \$0.001 per share (the **Common Stock**), is our only outstanding class of voting securities. As of the record date for the Annual Meeting, there were 113,805,067 shares of Common Stock issued and outstanding. Each such share of Common Stock is entitled to one vote on each matter to be voted on at the Annual Meeting.

Holders of record of shares of our Common Stock outstanding as of the close of business on the record date are entitled to notice of and to vote at the Annual Meeting. A list of the stockholders of record as of the record date will be kept at our principal office at 333 Three D Systems Circle, Rock Hill, South Carolina 29730 for a period of 10 days prior to the Annual Meeting.

A majority of the shares of Common Stock outstanding on the record date that are present in person or represented by proxy will constitute a quorum for the transaction of business at the Annual Meeting.

HOW TO VOTE

You are considered to be a holder of record of each share of Common Stock that is registered in your name on the records of our transfer agent. If you are a stockholder of record, we will send you a Notice of Internet Availability of Proxy Materials. Please follow the instructions in that Notice in order to cast your vote.

Most of you hold your shares in a brokerage account or bank or through another nominee holder. In that case, your broker, bank or other nominee is generally considered to be the holder of record of those shares, and you are considered the **beneficial owner** of shares held in **street-name**. As a beneficial owner, you generally have the right to instruct your broker, bank or other nominee how to vote your shares. In this Proxy Statement, we refer to these stockholdings as **street-name holdings** and to you as a **street-name holder**.

You should expect your broker, bank or other nominee to send you a voting instruction form either by regular mail or in an email. Your broker, bank or other nominee is required to vote your shares pursuant to your instructions. In limited circumstances, your nominee may, but is not required to, vote your shares in the absence of specific voting instructions from you for matters that are considered **routine**. We understand that the ratification of the selection of BDO USA, LLP (**BDO**) as our independent registered public accounting firm is the only **routine** proposal on which stockholders are being asked to vote at the Annual Meeting. Accordingly, if you do not give voting instructions to your broker, bank or other nominee, it will be entitled to vote your shares in its discretion on the ratification of the appointment of BDO; however, it will not vote your shares in connection with (i) the election of directors, (ii) the advisory vote on the compensation of our named executive officers or (iii) the stockholder proposal to reduce the ownership required for stockholders to call a special meeting.

Accordingly, **street-name** holders need to be mindful of the following:

For your vote to be counted with respect to each of the proposals except the ratification of BDO's appointment, you will need to communicate your voting instructions to your broker, bank or other nominee before the date of our Annual Meeting.

You may also give your broker, bank or other nominee instructions on voting your shares as to the ratification of BDO's appointment. If you provide no instructions, that person may, but is not required to, exercise its discretion in voting on the ratification of the appointment of BDO as our independent registered public accounting firm.

If your broker, bank or other nominee exercises that discretion, your shares will be treated as present at the meeting for all quorum purposes.

To ensure that you as a **street-name** holder are able to participate in our upcoming Annual Meeting, please review our proxy materials and follow the instructions for voting your shares on the voting instruction form that you will be receiving from your nominee.

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Voting your shares is important, among other things, to ensure that we get the minimum quorum required to hold and conduct business at the Annual Meeting. Your affirmative participation in the voting process also helps us avoid the need and the added expense of having to contact you to solicit your vote and helps us avoid the need of having to reschedule the Annual Meeting. We hope that you will exercise your legal rights and fully participate in our future.

We encourage you to review this Proxy Statement and our 2017 Annual Report before you cast your vote. Whether you are a stockholder of record or a street-name holder, you may vote any shares of Common Stock that you are entitled to vote:

electronically on the internet;

by mail using a proxy card or voting instruction form that may be furnished to you; or

by using a toll-free telephone number that will be furnished to you.

For a discussion of the mechanics of each of these means of voting, please see *How to Cast Your Vote if You are a Stockholder of Record*, *How to Cast Your Vote if You are a Street-Name Holder*, and *Other Voting and Stockholder Matters* below.

VOTING MATTERS

Once a quorum of the shares entitled to vote is present in person or represented by proxy at the Annual Meeting, the votes required to approve the matters to be considered at the Annual Meeting are as follows:

Election of Directors. Each director is elected by the affirmative vote of the majority of the votes cast for such director at the Annual Meeting.

Advisory Vote on the Compensation of Our Named Executive Officers. The affirmative vote of a majority of shares present at the Annual Meeting and entitled to vote thereon, is required to approve this matter.

Ratification of Selection of Auditors. The affirmative vote of a majority of shares present at the Annual Meeting and entitled to vote thereon, is required to approve this matter.

Stockholder Proposal to Reduce the Ownership Required for Stockholders to Call a Special Meeting. The affirmative vote of a majority of shares present at the Annual Meeting and entitled to vote thereon, is required to approve this matter.

If you specify how your shares are to be voted on a matter, the shares represented by your proxy or other voting instructions will be voted in accordance with your instructions. If you are a stockholder of record and you do not give specific voting instructions when you grant an otherwise valid proxy, your shares will be voted as follows:

FOR the election of the eleven nominees for director named below;

FOR the approval, on an advisory basis, of the compensation paid to our named executive officers;

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FOR the ratification of the selection of BDO as our independent registered public accounting firm for 2018; and

AGAINST the stockholder proposal to reduce the ownership required for stockholders to call a special meeting.

We do not know of any other matters to be presented for consideration at the Annual Meeting. However, if any other matters are properly presented for consideration, the proxy holders will vote your shares on those matters in accordance with the Board of Directors recommendations. If the Board of Directors does not make a recommendation on any such matters, the proxy holders will be entitled to vote in their discretion on those matters.

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PROPOSAL ONE

ELECTION OF DIRECTORS

At the Annual Meeting, the stockholders will elect eleven directors to serve until the 2019 Annual Meeting and until their successors are elected and qualified. The Board of Directors, based upon the recommendation of the Corporate Governance and Nominating Committee (the Governance Committee), has designated as nominees for election the eleven individuals named in the table below, all of whom currently serve as directors.

In nominating each of the director nominees, the Governance Committee and the Board considered, among other things, the Board's Corporate Governance Guidelines and Qualifications for Nomination to the Board, which were adopted in 2004 and most recently amended in March 2018. These documents are posted on our website at www.3DSystems.com. These qualifications include, among other factors, a candidate's ethical character, experience and diversity of background as well as whether the candidate is independent under applicable listing standards and financially literate. In considering the nomination of these individuals, the Governance Committee and the Board also took into consideration the following additional factors relating to each director since the 2017 Annual Meeting:

such director's contributions to the Board;

any material change in such director's employment or responsibilities with any other organization;

such director's attendance at meetings of the Board and the Board committees on which such director serves and such director's participation in the activities of the Board and such committees;

the absence of any relationships with the Company or another organization, or any other circumstances that have arisen, that might make it inappropriate for the director to continue serving on the Board; and

although we have not adopted a retirement policy for directors, the director's age and length of service on the Board.

Relevant information regarding the background and experience of each of the nominees for director that the Governance Committee and the Board considered in evaluating each nominee is set forth opposite their respective names in *Information Concerning Nominees* below. See also *Corporate Governance Matters* below, which discloses additional information about the nominees and our corporate governance policies and practices.

The Governance Committee and the Board considered each nominee's overall business experience, contributions to Board activities during 2017 and independence in their evaluation of each nominee in conjunction with the factors discussed above, but did not otherwise give greater weight to any of the factors cited above compared with any of the others. While the Board considers diversity of background and experience in its nomination decisions, we do not maintain a diversity policy relating to the composition of our Board of Directors. The Board believes that each of the nominees for director is well qualified to continue to serve as a director of the Company and that the nominees provide the mix of experience that is required to enable the Board to perform its functions.

If any nominee becomes unavailable for any reason or if a vacancy should occur before the election (which events are not anticipated), the holders of proxies may vote the shares represented by such duly executed proxies in favor of such other person as they may determine. Alternatively, in lieu of designating a substitute, the Board may reduce the number of directors.

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The Board of Directors unanimously recommends that you vote

FOR

each of the nominees listed in the table below.

Information Concerning Nominees

The following table sets forth for each nominee for director, his or her business experience, the year in which he or she first became a director, his or her age as of the record date for the Annual Meeting, and any directorships in publicly owned companies or registered investment companies that such nominee currently holds or has held during the past five years. It also sets forth the particular experiences, qualifications, attributes, and skills of each nominee for director that led to the conclusion of the Governance Committee and the Board that the nominee should serve as a director.

Name	Business Experience	Director Since	Age
William E. Curran	Currently retired, Mr. Curran has served as a director of Profound Medical, a public company developing a treatment for prostate cancer using ablative ultrasound and guided by magnetic resonance imaging and thermometry, since 2012. Previously, Mr. Curran served as non-executive Chairman and Director of Resonant Medical, an early-stage privately owned company specializing in three-dimensional ultrasound image-guided adaptive radio therapy products, until May 2010 at which time Resonant was sold to Elekta A.B. He also served until May 2009 as a director of Ventracor, a global medical device company which produced an implantable blood pump, at which time the directors brought in an administrator under Australian law. For more than five years prior to 2004, he held diverse functional and senior management positions with Philips Electronics and Philips Medical Systems. His experience at Philips Medical Systems, a medical device manufacturer, included positions as Chief Operating Officer and Chief Financial Officer, and while at Philips Electronics North America he served as President and Chief Executive Officer as well as Chief Financial Officer.	2008	69
Thomas W. Erickson	Mr. Curran brings to our Board wide experience in operations, finance and executive management both in the United States and abroad. Mr. Erickson has been President and Chief Executive Officer of ECG Ventures, Inc., an investment firm, since 1987. He has also served as Chairman of Western Dental Services, Inc., a dental services provider, from November 2012 to September 2015; Interim Chief Executive Officer of Western Dental Services, Inc. from April 2013 to January 2014, and Chairman of the Board of Inmar, Inc., a reverse logistics and revenue recovery company, from April 2010 to February 2014. Mr. Erickson has also previously served as a Senior Advisor to New Mountain Capital, LLC, a private equity firm; Chairman and Interim President of National Medical Health Card Systems, Inc., a publicly traded pharmacy benefits manager; Chairman of the Board of PathWays, Inc., an operator of post-acute care facilities; Chairman of the Board of TransHealthcare, Inc., a health care services company; Chairman and Interim Chief	2015	67

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Name	Business Experience	Director Since	Age
	<p>Executive Officer of LifeCare Holdings, Inc., an operator of long-term acute care hospitals; Interim President and Chief Executive Officer of Luminex Corporation, a publicly traded biotechnology company; and Interim President and Chief Executive Officer of Omega Healthcare Investors, Inc., a publicly traded healthcare focused real estate investment trust. Mr. Erickson was also co-founder, President and Chief Executive Officer of CareSelect Group, Inc., a physician practice management company. Mr. Erickson is currently a Director of American Renal Associates and Luminex Corporation.</p>		
Charles W. Hull	<p>Mr. Erickson brings to our Board extensive executive management and operational experience, particularly in the healthcare industry.</p> <p>Mr. Hull serves as the Executive Vice President and Chief Technology Officer of the Company. He is a founder of the Company and has served as Chief Technology Officer since 1997 and as Executive Vice President since 2000. He has also previously served in various other executive capacities, including Chief Executive Officer, Vice Chairman of the Board of Directors and President and Chief Operating Officer.</p>	1993	78
William D. Humes	<p>As one of our founders and a director since 1993, Mr. Hull brings to our Board a broad understanding of the technologies of our industry as well as a wide-ranging historical perspective on our strategy and growth.</p> <p>Mr. Humes served as Chief Financial Officer of Ingram Micro Inc., a Fortune 100 company and the world's largest wholesale technology distributor and a global leader in supply-chain and mobile device lifecycle services, from 2005 until 2016, at which time Ingram Micro Inc. was acquired and taken private by HNA Group. Following HNA's acquisition of Ingram Micro Inc., Mr. Humes transitioned from Chief Financial Officer to the board of directors of the newly acquired subsidiary on which he served until June 2017. While Chief Financial Officer of Ingram Micro, he was responsible for the company's global finance organization including financial planning and analysis, controllership, internal audit, tax, treasury and risk management. Prior to being named Chief Financial Officer, Mr. Humes held positions of increasing responsibility for Ingram Micro after joining in 1998 as Senior Director, Worldwide Financial Planning, Reporting and Accounting. Before joining Ingram Micro, Mr. Humes was at PricewaterhouseCoopers LLP for nine years, where he took an accelerated path to senior manager. During his tenure at the firm, he was responsible for managing all aspects of professional services to numerous multinational and technology-sector companies.</p> <p>Mr. Humes brings to our Board wide experience in finance, operations and executive management.</p>	2014	53

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Name	Business Experience	Director Since	Age
Vyomesh I. Joshi	Mr. Joshi has served as the President and Chief Executive Officer of the Company since April 2016. From 2001 to 2012, he was Executive Vice President of Hewlett-Packard's (HP) Imaging and Printing Group, following two decades of research, engineering and management in HP's imaging and printing systems. Mr. Joshi currently serves on the board of directors of Harris Corporation and formerly served on the board of directors at Yahoo! Inc. and Wipro Ltd.	2016	64
Jim D. Keever	Mr. Joshi brings to our Board extensive executive management, corporate strategy and international operational experience. Additionally, Mr. Joshi has significant knowledge of the Company and the competitive environment in which it operates. Mr. Keever has been a Principal in Voyent Partners, LLC, a venture capital firm, since 2001. He is also a director of Luminex Corporation, a manufacturer of laboratory testing equipment. He previously served as a director of Tyson Foods, Inc., an integrated processor of food products, until 2015; as director of Emdeon Business Services LLC and EBS Master, a provider of healthcare revenue and payment cycle solutions, until 2011; as a director of Transaction Systems Architects, Inc., a supplier of electronic payment software products and network integration solutions, until 2007; and as the President and Co-Chief Executive Officer of the Transaction Services Division of WebMD Corporation (formerly Envoy Corporation), an internet healthcare services company, from 1995 to 2001. Prior to 1995 he served as Envoy Corporation's Executive Vice President, Secretary and General Counsel.	1996	65
G. Walter Loewenbaum, II	Mr. Keever brings to our Board wide experience in operations, finance and executive management. Mr. Loewenbaum has served as the Chairman of the Board of Directors of the Company since 1999. Mr. Loewenbaum also serves as the Chairman of the Board of Luminex Corporation, a manufacturer of laboratory testing equipment.	1999	73
	Mr. Loewenbaum brings to our Board wide experience in operations, finance and executive management and, as a major stockholder, perspective on strategy and growth for the benefit of our stockholders.		

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Name	Business Experience	Director Since	Age
Charles G. McClure, Jr.	<p>Mr. McClure has served as a Managing Partner of Michigan Capital Advisors since 2014 and has more than 35 years of experience in the transportation industry. Prior to founding Michigan Capital Advisors, Mr. McClure served as Chairman of the Board, CEO and president of Meritor, Inc. from 2004 through 2013. From 2002 through 2004, Mr. McClure served as CEO, president and member of the Board of Federal Mogul Corp. Mr. McClure joined Federal Mogul in 2001 as president, COO and a member of the Board. Before joining Federal Mogul, Mr. McClure served as president, CEO and a member of the Board of Detroit Diesel. He joined Detroit Diesel in 1997 after 14 years in a variety of management positions with Johnson Controls.</p> <p>Mr. McClure currently sits on the Boards of DTE Energy and Crane Co. He previously sat on the Boards of R.L. Polk, General Cable Corporation and Remy International. He is an Ex-Officio member of the Executive Committee of the Detroit Regional Chamber of Commerce and was a past Chair of the Chamber. Additionally, McClure is a member of the Board of Trustees of Henry Ford Health Systems, the Board of Directors of Invest Detroit and a member of Business Leaders for Michigan.</p> <p>Mr. McClure brings to our Board broad experience in operations and executive management and significant expertise in the automotive industry, a key vertical for our Company.</p>	2017	64
Kevin S. Moore	<p>Mr. Moore has been with The Clark Estates, Inc., a private investment firm and a major company stockholder, for more than 20 years, where he is currently President and a director. He is also a director of Aspect Holdings, LLC, The Clark Foundation and the National Baseball Hall of Fame & Museum, Inc. and Vice Chairman of the Board of Trustees of Bassett Healthcare Network.</p> <p>Mr. Moore brings to our Board wide experience in operations, finance and executive management and, as President of a major stockholder, perspective on strategy and growth for the benefit of our stockholders.</p>	1999	63
John J. Tracy	<p>Dr. Tracy has more than 37 years of experience in the aerospace industry, most recently as Chief Technology Officer and Senior Vice President, Engineering, Operations and Technology at The Boeing Company. Dr. Tracy has strong leadership in technology, operations, quality and engineering from several aerospace companies, including Hercules Aerospace Company, McDonnell Douglas Corporation and The Boeing Company. From 2006 until 2016, he served as Chief Technology Officer and Senior Vice President, Engineering, Operations and Technology at The Boeing Company. Prior to that he served as Vice President, Engineering and Mission Assurance for Boeing Integrated Defense Systems and Vice President Structural Technologies, Prototyping and Quality of Phantom Works at The Boeing Company, after serving in roles of increasing</p>	2017	63

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Name	Business Experience	Director Since	Age
	responsibility at Hercules, McDonnell Douglas and The Boeing Company since 1979. Dr. Tracy is an elected member of the National Academy of Engineering and a Fellow in several technical organizations.		
	Dr. Tracy brings to our Board strong leadership experience and specialized expertise in aircraft manufacturing, structure and materials.		
Jeffrey Wadsworth	Dr. Wadsworth, currently retired, served as President and Chief Executive Officer of Battelle, the world's largest independent research and development enterprise (Battelle), from January 2009 until October 2017. He formerly was Executive Vice President, Global Laboratory Operations at Battelle, Director of Oak Ridge National Laboratory and Chief Executive Officer and President of UT-Battelle LLC and Senior Vice President for U.S. Department of Energy Science Programs at Battelle.	2017	67
	Previously, he was director of Homeland Security Programs at Battelle and part of the White House Transition Planning Office for the then-newly formed U.S. Department of Homeland Security. From 1992 to 2002, Dr. Wadsworth was at the Lawrence Livermore National Laboratory in Livermore, California, where from 1995 he was Deputy Director for Science and Technology. Prior to that, he was with Lockheed Missiles and Space Company, Research and Development Division. He was elected to the U.S. National Academy of Engineering in 2005, has been elected Fellow of three technical societies, and holds numerous awards and honors. Dr. Wadsworth currently serves on the board of directors of Carpenter Technologies and on the board of trustees at The Ohio State University.		
	Dr. Wadsworth brings to our Board a strong background in the defense industry and significant leadership experience in the research and development arena, particularly with respect to innovation and strategy matters.		

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CORPORATE GOVERNANCE MATTERS

Our Board of Directors is committed to sound and effective corporate governance practices, to diligently exercising its oversight responsibilities with respect to our business and affairs consistent with the highest principles of business ethics, and to meeting the corporate governance requirements that apply to us.

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines that address various governance matters, including, among others, the functions of the Board, Board committees, director qualification standards and the director nomination process; director responsibilities; director access to management and independent advisors; director stock ownership; director orientation and continuing education; management succession; and an annual performance evaluation of the Board. The Governance Committee is responsible for overseeing these Guidelines, periodically assessing their adequacy, and modifying them to meet new circumstances. These Guidelines are posted on our website at www.3DSystems.com under *Investor Relations*, and then under *Governance*.

Director Independence

Eight of our eleven directors are independent directors. Under the corporate governance standards of the New York Stock Exchange (the NYSE), at least a majority of our directors, and all of the members of the Audit Committee, Compensation Committee, and Governance Committee, must meet the test of independence. The NYSE standards provide that, to qualify as an independent director, in addition to satisfying certain bright-line criteria, the Board must affirmatively determine that a director has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company). The Board has affirmatively determined that Messrs. Curran, Humes, Keever, Loewenbaum, McClure, Moore, Tracy, and Wadsworth satisfy the bright-line criteria of the listing standards of the NYSE and that they have no material relationships with us. In making its determination, the Board and the Governance Committee reviewed the related party transactions relating to Mr. Humes that are disclosed under *Related Party Transaction Policy and Procedures* beginning on page 16 of this Proxy Statement, and the following relationships:

Mr. Joshi, our Chief Executive Officer (CEO), and Mr. Chuck Hull, one of our founders and our Chief Technology Officer, are executive officers of the Company and, as such, are not independent directors.

Mr. Erickson, who was appointed to the Board on November 17, 2015, was party to a consulting agreement with the Company in 2016, as described further under *Related Party Transaction Policy and Procedures* beginning on page 16 of this Proxy Statement and, as such, is not an independent director.

Risk Responsibility and Oversight

Consistent with Delaware law, our business is managed by our officers under the direction and oversight of the Board of Directors. In this regard, our management, including our corporate officers, is responsible for the day-to-day management of the risks facing us, including macroeconomic, financial, strategic, operational, public reporting, legal, regulatory, political, compliance, and reputational risks. They carry out this responsibility through a coordinated effort among themselves in the management of our business.

In exercising its oversight responsibilities, as permitted by law, the Board receives and relies on reports and other information provided by management, reviews, and approves matters that it is required or permitted to approve by law or our Certificate of Incorporation or By-Laws, each as amended, and receives information relating to, and enquires into, such other matters as it deems appropriate, including our business plans, prospects and performance, succession planning, risk management, and other matters for which it has oversight responsibility. The Board carries out its general oversight responsibility both by acting as a whole as well as through its committees. Among other things, the Board as a whole periodically reviews our processes for identifying, ranking, and assessing risks that affect our organization as well as the output of those processes. The Board as a whole also receives periodic reports from our management on various risks, including risks of the types mentioned above facing our businesses, risks presented by transactions that are presented to the Board for approval, and risks arising out of our corporate strategy.

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As discussed below, the Board also maintains several standing committees with oversight responsibility for various Board functions. Although the Board has ultimate responsibility for overseeing risk, its standing committees perform certain of its oversight responsibilities. For example, in accordance with its charter, the Audit Committee engages in ongoing discussions regarding major financial and accounting risk exposures and the process and system employed to monitor and control such exposures. In addition, consistent with its charter, the Audit Committee engages in periodic discussions with management concerning the process by which risk assessment and management are undertaken, and it exercises oversight with regard to the risk assessment and management processes related to, among other things, internal controls, credit, capital structure, liquidity and insurance programs. In carrying out these responsibilities, the Audit Committee, among other things, regularly reviews with the Internal Audit Director the audits or assessments of significant accounting and audit risks conducted by Internal Audit personnel based on their audit plan, and the Committee regularly meets in executive sessions with the Internal Audit Director. The Audit Committee also regularly reviews with management our internal control over financial reporting, including any significant deficiencies or material weaknesses. As part of these reviews, the Audit Committee reviews steps taken by management to monitor, control and mitigate risks. The Audit Committee also regularly reviews with the Chief Legal Officer significant legal, regulatory and compliance matters that could have a material impact on our financial statements or business. Finally, from time to time executives who are responsible for managing particular risks report to the Audit Committee on how those risks are being controlled and mitigated.

Other Board committees also exercise responsibility to oversee risk within their areas of responsibility and expertise. For example, as noted in the section below entitled *Risk Assessment of Compensation Policies and Practices*, the Compensation Committee oversees risk assessment and management with respect to our compensation policies and practices, and it exercises oversight with respect to our 401(k) plan.

In those cases in which committees have risk oversight responsibilities, the Chairs of the committees regularly report to the full Board the significant risks facing the Company, as identified by management, and the measures undertaken by management for controlling and mitigating those risks.

Risk Assessment of Compensation Policies and Practices

We have reviewed our material compensation policies and practices, discussed the concept of risk as it related to our compensation program, and considered various mitigating factors. Based on these reviews and discussion, the Compensation Committee does not believe our compensation program creates risks that are reasonably likely to have a material adverse effect on our business.

For more information regarding our compensation program, see the section of this Proxy Statement titled *Compensation Discussion & Analysis*.

Board Leadership Structure

The Board has separated the position of its Chairman from the position of CEO. As noted above, Mr. Loewenbaum, an independent director, serves as Chairman of the Board of Directors.

Nevertheless, we do not have a policy regarding whether the Chairman and CEO roles should be combined or separated. Rather, our Board of Directors prefers to retain flexibility to choose its leadership structure and Chairman in any way that it deems best for the Company at any given time. The Board periodically reviews the appropriateness and effectiveness of its leadership structure given numerous factors. Currently, the Board believes that it is appropriate for Mr. Loewenbaum to remain as Chairman given his independence as a director, his background and experience, and his significant holdings of our Common Stock, which enable him to reflect the views of stockholders in the deliberations of the Board of Directors. With the foregoing in mind, the Board believes that the current Board leadership structure has promoted decisive leadership, ensured clear accountability, and enhanced our ability to communicate with a consistent voice to stockholders, customers, employees, and other stakeholders. The Board also believes that it has assisted in the efficient conduct of Board meetings as the directors discuss key business and strategic matters and other critical issues.

While the Board believes that the separation of the positions of Chairman and CEO has been beneficial to the Company, the Board does not view any particular Board leadership structure as being preferable to any other.

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Accordingly, in the event that any future change in the Board's leadership structure occurs (which the Board does not currently expect to happen), the Board will take such actions with respect to its leadership structure as it then considers to be appropriate.

Succession Planning

We maintain a succession plan for the position of CEO and other executive officers. To assist the Board with this requirement, the CEO annually leads the Board of Directors in a discussion of CEO and senior management succession. The annual review includes an evaluation of the requirements for the CEO and each senior management position and an examination of potential permanent and interim candidates for CEO and senior management positions.

Director Emeritus Program

Our Board has created a Director Emeritus program to avail itself of the counsel of retiring directors who have made and can continue to make a unique contribution to the deliberations of the Board. Under the program, the Board may, at its discretion, designate a retiring director as Director Emeritus for a period of one year. A Director Emeritus may provide advisory services as requested from time to time and may be invited to attend meetings of the Board or its committees, but may not vote, be counted for quorum purposes, or have any of the duties or obligations imposed on our directors or officers under applicable law or otherwise be considered a director. Following Mr. Van Riper's retirement at the 2017 Annual Meeting, our Board requested that he serve, and he agreed to serve, as a Director Emeritus for a one-year term. Mr. Van Riper received \$100,000 in compensation for his service as Director Emeritus.

Meetings and Meeting Attendance

During 2017, the Board of Directors held 15 meetings. In 2017, each member of the Board of Directors attended at least 75 percent of the aggregate number of meetings of the Board of Directors held during the period for which he has been a director and of the committees of the Board on which he served during the periods that he served. A discussion of the number of committee meetings held during 2017 appears below.

The Board holds executive sessions with only independent directors in attendance at its regular meetings and at other meetings when circumstances warrant those sessions. The CEO, any other non-independent directors and other members of management are excused from these executive sessions. The Chairman of the Board or the Chairman of the Governance Committee presides over such independent sessions of the Board.

We encourage, but do not require, all incumbent directors and director nominees to attend our annual meetings of stockholders. All of the directors then in office attended our 2017 Annual Meeting of Stockholders.

Committees of the Board of Directors

The Board of Directors maintains an Audit Committee, a Compensation Committee, a Corporate Governance and Nominating Committee, a Technology Committee, and an Executive Committee as standing committees of the Board. The current members of all NYSE-required committees (the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee) are independent directors.

Each of the committees operates under a written charter that has been approved by the Board and is posted on our website. See *Availability of Information* on page 18 of this Proxy Statement. Each of these committees periodically reviews its written charter and updates its charter as necessary.

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The table below provides membership information for each of the Board's standing committees as of the date of this Proxy Statement.

Director Name	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Technology Committee	Executive Committee
William E. Curran	X*	X			
Thomas W. Erickson					X*
Charles W. Hull				X	
William D. Humes	X	X			
Vyomesh I. Joshi				X	X
Jim D. Kever			X*		
G. Walter Loewenbaum, II					X
Charles G. McClure, Jr.	X				X
Kevin S. Moore	X	X*			X
John J. Tracy				X*	
Jeffrey Wadsworth			X	X	

* Chairperson
Audit Committee

In addition to the risk oversight matters discussed above, the principal responsibilities of the Audit Committee are to assist the Board of Directors in fulfilling its oversight responsibilities for:

monitoring our systems of internal accounting and financial controls;

our public reporting processes;

the retention, performance, qualifications, and independence of our independent registered public accounting firm;

the performance of our internal audit function;

the annual independent audit of our consolidated financial statements;

the integrity of our consolidated financial statements; and

our compliance with legal and regulatory requirements.

The Audit Committee has the ultimate authority and responsibility to select, evaluate, and approve the terms of retention and compensation of, and, where appropriate, to replace our independent registered public accounting firm.

The Board of Directors has determined, upon the recommendation of the Corporate Governance and Nominating Committee, that each member of the Audit Committee is an audit committee financial expert as defined in the regulations of the Securities and Exchange Commission and, therefore, meets the requirement of the listing standards of the NYSE of having accounting or related financial management expertise. The

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Board of Directors has determined, upon the recommendation of the Corporate Governance and Nominating Committee, that each member of the Audit Committee members also meets the heightened standards of independence applicable to audit committee members as prescribed by the Securities and Exchange Commission.

The Audit Committee held six meetings in 2017. It also held private sessions with our independent registered public accounting firm and the Internal Audit Director at several of its meetings. Our Internal Audit Director reports to the Chairman of the Audit Committee.

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The report of the Audit Committee is set forth beginning on page 45 of this Proxy Statement.

Compensation Committee

In addition to the risk oversight matters discussed above, the principal responsibilities of the Compensation Committee are to:

determine the compensation of our CEO (the CEO may not be present during voting or deliberations regarding his compensation);

determine the compensation of all of our other executive officers, each direct report of the CEO, and any of our other employees or employees of any of our subsidiaries who have a base annual salary of \$300,000 or more;

administer our equity compensation plans and authorize the issuance of shares of Common Stock and other equity instruments under those plans; and

perform the duties and responsibilities of the Board of Directors under our 401(k) Plans.

The Board of Directors has determined, upon the recommendation of the Corporate Governance and Nominating Committee, that each member of the Compensation Committee (1) meets the heightened standards of independence applicable to compensation committee members as prescribed by the NYSE, (2) is a Non-Employee Director for purposes of Rule 16b-3 of the Securities Exchange Act of 1934, as amended, (the Exchange Act) and (3) is an Outside Director for purposes of Section 162(m) of the Internal Revenue Code, as amended (the Code). The Compensation Committee held seven meetings in 2017, in addition to various unanimous consents.

The report of the Compensation Committee appears on page 33 of this Proxy Statement.

Compensation Committee Interlocks and Insider Participation

None of our current executive officers served during 2017 as a director of any entity with which any of our outside directors is associated or whose executive officers served as one of our directors, and none of the members of the Compensation Committee has been an officer or employee of the Company or any of our subsidiaries.

Role of Consultant

The Compensation Committee has sole authority to retain, compensate, and terminate a compensation consultant to assist in the evaluation of CEO or senior executive compensation. In 2017, the Committee retained Pearl Meyer & Partners (Pearl Meyer) as its independent compensation consultant. Pearl Meyer does not provide any other services to the Company, and the Compensation Committee has determined, based on its assessment of the relevant factors set forth in the applicable Securities and Exchange Commission (the SEC) rules, that Pearl Meyer's work for the Compensation Committee does not raise any conflict of interest.

The consultant compiles information regarding the components and mix of the executive compensation programs of the Company and its peer group, analyzes the relative performance of the Company and the peer group with respect to the financial metrics used in the programs, and provides advice to the Compensation Committee regarding the Company's executive compensation program. The consultant also provides information regarding emerging trends and best practices in executive compensation.

The consultant retained by the Compensation Committee reports to the Compensation Committee Chair and has direct access to Committee members. The consultant periodically attends Compensation Committee meetings and meets with members of the Compensation Committee.

Corporate Governance and Nominating Committee

The principal responsibilities of the Governance Committee are to:

assist the Board in identifying individuals qualified to become Board members;

assist the Board in determining the independence of the Board nominees;

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recommend to the Board nominees to be elected at annual meetings of stockholders;

fill vacancies or newly created directorships at other times;

recommend to the Board the corporate governance guidelines applicable to the Company;

lead the Board in its reviews of the performance of the Board and its committees;

recommend to the Board nominations of the directors to serve on each committee; and

assist the Board in the development of executive succession plans.

The Governance Committee held four meetings in 2017.

Technology Committee

The principal responsibilities of the Technology Committee are to:

review the Company's technology strategy and approach, including its impact on the Company's performance, growth, and competitive position;

review the Company's technology capabilities and intellectual property and provide guidance on the Company's technology and innovation strategy;

assess the Company's technical workforce and its suitability for meeting needs, including engineering leadership and the development and succession planning process for critical technology experts;

review and advise on the Company's research and development expenditure plans; and

assist the Board in its oversight of the Company's technology initiatives and investments, including through acquisitions and other business development activities.

The Technology Committee was formed in March 2018 and, therefore, did not meet in 2017.

Executive Committee

The principal responsibilities of the Executive Committee are to function on behalf of the Board of Directors during intervals between meetings of the Board, to the extent permitted by law, and to guide our strategic planning.

The Executive Committee held four meetings in 2017.

Stockholdings of Directors

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Among the factors considered under our *Qualifications for Nomination to the Board* discussed above is an expectation that each director will hold during his or her term of office a meaningful number of shares of our Common Stock. Several of our directors beneficially own substantial numbers of shares of our Common Stock. See *Director Compensation* and *Security Ownership of Certain Beneficial Owners and Management* below.

Stockholder Communications with the Board of Directors

Stockholders and other interested persons may communicate with the Board by sending an email to BoardofDirectors@3DSystems.com or by sending a letter to the Board of Directors of 3D Systems Corporation, c/o Corporate Secretary, 333 Three D Systems Circle, Rock Hill, South Carolina 29730.

We believe that providing a method for interested parties to communicate directly with our independent directors, rather than to the full Board, provides a more confidential, candid and efficient method of relaying any interested party's concerns or comments. The Chairman of the Board presides over independent executive sessions of directors is the Chairman of the Board. The Chairman may be contacted by any party by sending a letter to the Chairman of the Board of Directors of 3D Systems Corporation, c/o Corporate Secretary, 333 Three D Systems Circle, Rock Hill, South Carolina 29730.

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All communications must contain a clear notation indicating that they are a Stockholder-Board Communication or a Stockholder-Director Communication and must identify the author.

The office of the Corporate Secretary will receive the correspondence and forward appropriate correspondence to the Chairman of the Board or to any individual director or directors to whom the communication is directed. We reserve the right not to forward any communication that is hostile, threatening, or illegal, does not reasonably relate to the Company or its business, or is similarly inappropriate. The office of the Corporate Secretary has authority to discard or disregard any inappropriate communication or to take any other action that it deems to be appropriate with respect to any inappropriate communications.

We also welcome communications from our stockholders that are consistent with applicable law and are initiated through our Vice President, Investor Relations, who may be contacted at (803) 326-4010 or investor.relations@3dsystems.com.

Proxy Access

In December 2016, following the receipt of a stockholder proposal and input received from our stockholders, the Board amended the Company's By-Laws to adopt proxy access bylaws that permit up to 20 stockholders owning 3% or more of our Common Stock continuously for a period of at least 3 years to nominate up to the greater of two directors and 20% of the Board and include these nominees in our proxy materials.

Code of Conduct and Code of Ethics

Our Code of Conduct applies to all of our employees worldwide, including all of our officers. We separately maintain a Code of Ethics that applies to our CEO, Chief Financial Officer, principal accounting officer (which is currently the Chief Financial Officer), Controller and all other senior financial executives and to directors of the Company when acting in their capacity as directors.

These documents are designed to set high standards of business conduct and ethics for our activities and to help directors, officers, and employees resolve ethical issues. The purpose of our Code of Conduct and our Code of Ethics is to provide assurance to the greatest possible extent that our business is conducted in a consistently legal and ethical manner. Employees may submit concerns or complaints regarding ethical issues on a confidential basis by means of a toll-free telephone call to an assigned voicemail box. We investigate all concerns and complaints.

We intend to disclose amendments to, or waivers from, any provision of the Code of Ethics that applies to our CEO, Chief Financial Officer, principal accounting officer or Controller and persons performing similar functions and that relates to any element of the Code of Ethics described in Item 406(b) of Regulation S-K by posting such information on our website. See *Availability of Information* on page 18 of this Proxy Statement. There have been no such waivers since the date of the proxy statement for our 2017 Annual Meeting.

Related Party Transaction Policy and Procedures

In addition to the provisions of our Code of Conduct and Code of Ethics that deal with conflicts of interest and related-party transactions, we have adopted a Related Party Transaction Policy that is designed to confirm our position that related-party transactions should be avoided except when they are in our interests and to require that certain types of transactions that may create conflicts of interest or other relationships with related parties are approved in advance by the Board of Directors and a committee composed of directors who are independent and disinterested with respect to the matter under consideration. This policy applies to transactions meeting the following criteria:

the amount involved will or may be expected to exceed \$120,000 in any calendar year;

we or any of our subsidiaries would be a participant; and

any person who is or was in the current or immediately preceding calendar year an executive officer, director, director nominee, greater than five percent beneficial owner of our Common Stock, or immediate family member of any of the foregoing, has or will have a direct or indirect interest.

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In adopting this policy, the Board reviewed certain types of transactions and deemed them to be pre- approved even if the amount involved exceeds \$120,000. These types of transactions include:

employment arrangements with executive officers where such executive officer's employment in that capacity and compensation for serving as an executive officer has been approved by the Board, the Compensation Committee, or another committee of independent directors;

director compensation arrangements where such arrangement has been approved by the Governance Committee (or another committee of independent directors) and the Board;

awards to executive officers and directors under compensatory plans and arrangements pursuant to our Amended and Restated 2004 Incentive Stock Plan (the 2004 Incentive Stock Plan), our 2015 Incentive Plan (together with the 2004 Incentive Stock Plan, the Plans), and our 2004 Restricted Stock Plan for Non-Employee Directors (the Directors Stock Plan), the exercise by any executive officer or director of any previously awarded stock option that is exercised in accordance with its terms, and any grants or awards made to any director or executive officer under any other equity compensation plan that has been approved by our stockholders;

certain transactions with other companies where a related party has a *de minimis* relationship (as described in the policy) with the other company and the amount involved in the transaction does not exceed the lesser of \$500,000 or two percent of the other company's total annual revenue;

charitable contributions made by us to a charitable organization where a related party has a *de minimis* relationship and the amount involved does not exceed the lesser of \$10,000 or two percent of the charitable organization's total annual receipts and charitable contributions under any matching program maintained by us that is available on a broad basis to employees generally; and

other transactions where all security holders receive proportional benefits.

Under the terms of our Related Party Transaction Policy, when considering whether to approve a proposed related party transaction, factors to be considered include, among other things, whether such transaction is on terms no more favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. A copy of our Related Party Transaction Policy is posted on our website. See *Availability of Information* on page 18 of this Proxy Statement.

One of our directors, Mr. Humes, served as a member of the board of directors of Ingram Micro until June 2017. During 2017, we sold approximately \$408,000 worth of products to Ingram Micro, which is one of our distributors. Mr. Humes did not receive any direct or indirect material benefit from these transactions.

On January 21, 2016, the Board approved a Consulting Agreement (the Consulting Agreement) between the Company and ECG Ventures, Inc., a consulting company owned by one of our directors, Mr. Erickson. The Consulting Agreement provided that Mr. Erickson would provide strategic and management consulting services to the Company in exchange for \$75,000 a month plus reimbursement of expenses. In connection with the Consulting Agreement, Mr. Erickson was also awarded 25,000 shares of restricted stock that vested as scheduled on December 31, 2016. This agreement was terminated on May 1, 2016, Mr. Erickson having earned \$318,750 under the agreement in addition to the restricted stock grant.

Policy on Hedging Transactions

Our Insider Trading Policy prohibits anyone who is employed by or associated with us from engaging in short-term or speculative transactions in our securities. This policy includes within its coverage short sales, which for directors and executive officers of the Company are prohibited by Section 16(c) of the Exchange Act. It also prohibits transactions in publicly traded options, such as puts, calls, and other derivative securities, or other hedging transactions on a securities exchange or other organized market. Our Insider Trading Policy requires that our directors and executive officers pre-clear any transactions in our securities with our Chief Legal Officer or Assistant General Counsel.

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Clawbacks of Incentive Compensation

As part of our Corporate Governance Guidelines, the Board has adopted a policy on the clawback of incentive compensation. Under the terms of this policy, if the Board or an appropriate Board committee has determined that any fraud or intentional misconduct by one or more executive officers caused, directly or indirectly, the Company to restate its financial statements, subject to applicable law, the Board will take, in its sole discretion, such action as it deems necessary to remedy the misconduct and prevent its recurrence. The Board, subject to applicable law, may require reimbursement of any bonus or cash or equity incentive compensation awarded to such officers and/or effect the cancellation of unvested restricted stock or outstanding stock option awards previously granted to such officers in the amount by which such compensation exceeded any lower payment that would have been made based on the restated financial results.

In addition, each award granted under the 2015 Incentive Plan is subject to the condition that we may require that such award be returned, and that any payment made with respect to such award must be repaid, if such action is required under the terms of any recoupment or clawback policy of ours as in effect on the date that the payment was made, or on the date the award was granted or exercised or vested or earned, as applicable.

The Board recognizes that the Dodd-Frank legislation enacted in 2010 may, following rule making, require some modification of these policies. The Board intends to review any rules adopted as a result of that legislation and to adopt any modifications to these policies that become required by applicable law.

Availability of Information

As noted above:

The Board of Directors has adopted a series of corporate governance documents, including Corporate Governance Guidelines, a Code of Conduct for our employees, a Code of Ethics and a Related Party Transaction Policy; and

Each standing committee of the Board operates under a written charter that has been approved by the Board. Each of these documents is available online and can be viewed on our website by going to www.3DSystems.com and clicking on About, then Investor Relations, then Governance and then selecting the appropriate document from the list on the web page.

Table of Contents**DIRECTOR COMPENSATION****Director Compensation for 2017**

The following table sets forth information concerning all compensation of each of our non-employee directors for their services as a director during the year ended December 31, 2017.

	Fees Earned			Total (\$)
	or Paid in Cash (\$)	Stock Awards(1) (\$)	All Other Compensation (\$)	
G. Walter Loewenbaum, II	300,000	99,997		399,997
William E. Curran	119,250	99,997		219,247
Thomas W. Erickson	176,000	99,997		275,997
William D. Humes	89,250	99,997		189,247
Jim D. Keever	80,500	99,997		180,497
Charles G. McClure, Jr.	40,733	130,390		171,123
Kevin S. Moore	111,375	99,997		211,372
John J. Tracy	17,797	104,111		121,908
Daniel S. Van Riper ⁽²⁾	40,750	0	62,500	103,250
Jeffrey Wadsworth	33,483	130,390		163,873
Karen E. Welke ⁽³⁾	56,750	0		56,750

- (1) Represents the aggregate grant date fair value of the restricted stock awards granted in 2017 to each director computed in accordance with stock-based accounting rules (Financial Standards Accounting Board (FASB) ASC Topic 718). The value of the restricted stock awards is determined by multiplying the number of shares awarded by the closing price of our Common Stock on the date of grant. The amounts in this column include awards of 3,000 shares of Common Stock made to directors in office under the Directors Stock Plan on May 16, 2017 minus the \$3.00 purchase price for the shares covered by each award paid by the recipients. The amounts in this column also include awards of 1,290 shares of Common Stock made to directors in office under the 2015 Incentive Plan on May 16, 2017. Such awards were valued based on the closing market price of our Common Stock (\$23.31 per share) on May 16, 2017, the date of grant. The amounts in this column also include awards of 2,136 shares of Common Stock made to Mr. McClure and Dr. Wadsworth under the Directors Stock Plan on March 27, 2017 in connection with their appointment to the Board. Such awards were valued based on the closing market price of our Common Stock (\$14.23 per share) on March 27, 2017, the date of grant. The amount in this column also includes an award of 5,020 shares of Common Stock made to Dr. Tracy under the Directors Stock Plan and the 2015 Incentive Plan on June 7, 2017 in connection with his appointment to the Board. Such award was valued based on the closing market price of our Common Stock (\$20.74 per share) on March 27, 2017, the date of grant.
- (2) Mr. Van Riper did not stand for re-election as a member of the Board at the 2017 Annual Meeting. The amounts shown reflect prorated fees Mr. Van Riper earned for service during the portion of 2017 during which he served as a director and the fees Mr. Van Riper earned as a Director Emeritus during 2017.
- (3) Ms. Welke did not stand for re-election as a member of the Board at the 2017 Annual Meeting. The amount shown reflects prorated fees Ms. Welke earned for service during the portion of 2017 during which she served as a director.

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Directors Fees

Director compensation is set by the Board, based upon the recommendation of the Governance Committee. We pay the following cash compensation to our non-employee directors:

Mr. Loewenbaum, as the Chairman of the Board of Directors, receives a fee of \$300,000 per annum for serving as Chairman.

Non-employee directors (other than the Chairman of the Board) receive an annual retainer of \$50,000.

Each member of the Audit Committee and the Technology Committee (in each case, other than the Chairman) receives a \$10,000 annual retainer.

Each member of all other standing committees (in each case, other than the Chairman) receives a \$5,000 annual retainer.

The Chairman of the Executive Committee receives an annual retainer of \$100,000.

The Chairman of the Audit Committee and the Technology Committee each receive an annual retainer of \$30,000.

The Chairman of the Compensation Committee and the Governance Committee each receive an annual retainer of \$10,000.

The following meeting fees are paid to non-employee directors other than the Chairman of the Board:

A meeting fee of \$2,000 for each regular or special Board meeting attended.

Members of the Audit Committee and the Technology Committee receive a fee of \$2,000 for each committee meeting attended on a day other than a day on which the Board is holding a regularly scheduled Board meeting.

For meetings of other standing committees of the Board, members of those committees receive a fee of \$1,500 for each committee meeting attended on a day other than a day on which the Board is holding a regularly scheduled Board meeting.

For meetings of any standing committee of the Board attended by a member of such committee on a day on which the Board is holding a regularly scheduled Board meeting, attendees receive 50% of the meeting fee that would otherwise be payable to such director.

A director who attends by invitation a meeting of a committee that he or she is not a member of is similarly entitled to receive a meeting fee.

As discussed below, non-employee directors also receive annual equity awards. We also reimburse directors for their expenses of attendance at meetings of the Board of Directors or its committees.

Directors who are employees of the Company (Mr. Joshi and Mr. Hull) receive no additional compensation for service as a director.

Director Equity Awards

Director equity compensation is set by the Board, based upon the recommendation of the Governance Committee. Equity awards granted to our directors are made under the Directors Stock Plan and 2015 Incentive Plan described in further detail below. The equity compensation policy for non-employee directors provides for annual grants of restricted stock to each director equal to \$100,000 in total value. Pursuant to this policy, each director in office on the date of the 2017 Annual Meeting was granted 4,290 shares of restricted stock. Because our Directors Stock Plan limits the number of equity awards that may be granted to any director in a single year to 3,000 shares, equity awards made to our non-employee directors were comprised of a grant of 3,000 shares under the Directors Stock Plan and a grant of 1,290 shares under the 2015 Incentive Plan. Additionally, Mr. McClure, Dr. Tracy, and Dr. Wadsworth each received initial grants of 1,000 shares upon joining the Board and prorated annual awards for partial years served. All shares of Common Stock issued to directors as compensation for their services as directors are fully vested when issued.

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Directors Stock Plan

Under the Directors Stock Plan, which our stockholders approved in May 2004, each director who is neither one of our officers or employees nor an officer or employee of any of our subsidiaries or affiliates (referred to in the Directors Stock Plan as a Non-Employee Director) is eligible to receive grants of Common Stock, as follows:

Annual Grants. Upon the adjournment of each annual meeting of the stockholders, each Non-Employee Director who has been elected a director at that annual meeting receives a grant of 3,000 shares of Common Stock.

Interim Grants. Any Non-Employee Director who is first elected a director other than at an annual meeting receives on the date of election a pro rata portion of the annual grant that the director would have received if elected at the preceding annual meeting.

Initial Grants. Each newly elected Non-Employee Director receives an initial grant of 1,000 shares of Common Stock when he or she is first elected to the Board.

Notwithstanding the stock grant amounts described above, the Directors Stock Plan limits the value of any award of shares made to an eligible director to \$100,000 valued on the date of the award.

As a condition of each award under the Directors Stock Plan, each participant is required to pay an issue price equal to the \$0.001 par value per share of Common Stock issued under the Directors Stock Plan, to execute an agreement to hold the shares covered by such grant in accordance with the terms and conditions of the Directors Stock Plan (including, without limitation, restrictions on transferability provided for in the Directors Stock Plan) and to comply with certain other terms and conditions of the grant. Except in limited circumstances provided for in the Directors Stock Plan, a Non-Employee Director is not permitted to sell, transfer, pledge, or otherwise dispose of shares of Common Stock awarded under the Directors Stock Plan as long as (a) the Non-Employee Director remains a director of the Company or (b) a change of control as provided for in the Directors Stock Plan has not occurred. Non-Employee Directors who hold shares of Common Stock under the Directors Stock Plan are entitled to voting rights and any dividends paid with respect to such shares. Shares of Common Stock issued under the Directors Stock Plan are fully vested when issued. Excluding grants to newly-elected directors, the Directors Stock Plan limits the number of equity awards that may be granted to any director in a single year to 3,000 shares.

The Directors Stock Plan authorizes the issuance of up to 600,000 shares of Common Stock for awards under the Directors Stock Plan, subject to further adjustment in the event of changes in the Common Stock by reason of any stock dividend, stock split, combination of shares, reclassification, recapitalization, merger, consolidation, reorganization, or liquidation. At December 31, 2017, 50,136 shares of Common Stock remained available for issuance under this Directors Stock Plan.

The Directors Stock Plan does not prevent the Board of Directors from exercising its authority to approve the payment of additional fees to members of the Board of Directors, to adopt additional plans or arrangements relating to the compensation of directors or to amend the existing cash fees paid to directors.

2015 Incentive Plan

Non-Employee Directors are also eligible to receive grants of Common Stock under the 2015 Incentive Plan, which was approved by our stockholders in May 2015 and amended and restated in May 2017. Subject to adjustment from time to time, not more than 10,000 shares of Common Stock, in the aggregate, may be made subject to awards under the 2015 Incentive Plan in respect of any Non-Employee Director during any year; provided, however, that up to 50,000 shares of Common Stock, in the aggregate, may be made subject to awards under the 2015 Incentive Plan during any year in respect of any Non-Employee Director who also provides consulting or other services to the Company in addition to the services provided as a member of the Board.

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EMPLOYEE COMPENSATION MATTERS

We maintain a compensation program for all of our employees that is based upon the following objectives:

to attract employees, and to retain current employees, with the skills and attributes that we need to promote the growth and success of our business;

to motivate our employees to achieve our strategic objectives;

to create an alignment of interests between our employees and our stockholders;

to align rewards with achievement of our goals and objectives; and

to encourage our employees to conduct themselves in accordance with our values and Code of Conduct.

We use the same principles in attracting and retaining our executives. In 2017, we established a consistent and unified market-based job architecture that now serves as the framework for all employee compensation decisions Company-wide.

All of our employees receive either fixed annual salaries or hourly wages for their services. Certain of them, including our executive officers, participate in annual incentive compensation programs that are approved by the Board of Directors or its committees as part of our annual budgeting process, and participants in those programs have fixed incentive compensation targets that are approved in advance. See *Executive Compensation* below. Other employees receive commissions at pre-established rates based on their sales or related customer activities that are intended to provide incentives to their achieving previously approved sales or service objectives.

Except with respect to his own compensation, our CEO oversees our employee compensation programs and makes recommendations to the Compensation Committee with respect to the compensation of each of his direct reports and other employees with base annual salaries of \$300,000 or more. Generally, the manager of each reporting unit is annually allocated a salary pool for such reporting unit, and the manager determines how to allocate this pool among the employees in the reporting unit. Our annual incentive pool, if funded, is intended to be allocated similarly among reporting units for reporting unit managers to allocate among the employees in such reporting unit. Our CEO establishes target incentive bonuses for the current calendar year for each of his direct reports, and the manager of each reporting unit establishes target incentive bonuses for the current calendar year for each employee in the reporting unit eligible to participate in the annual incentive program. All employee compensation decisions by the CEO and reporting unit managers are now guided by the market-based job architecture established in 2017.

As discussed above under *Corporate Governance Matters – Risk Assessment of Compensation Policies and Practices*, we believe that our compensation practices do not create inappropriate or unintended risks and that any such risks that do exist are not reasonably likely to result in a material adverse effect on us. We endeavor to manage any of these risks that may arise through our system of internal financial and operational controls and our Board and management oversight processes.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides detailed information and analysis regarding the compensation of our named executive officers as reported in the Summary Compensation Table and other tables located in the *Executive Compensation* section of this Proxy Statement.

Summary of Key 2017 Compensation Actions

Established market-based job architecture for all employees to ensure appropriate levels of pay at each employee classification across the Company.

Retained Pearl Meyer as independent compensation consultant for the Compensation Committee.

Maintained NEO base salaries at 2016 levels.

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Tied 100% of the funding of the 2017 Annual Incentive Plan to the Company's achievement of pre-determined revenue, cash flow from operations and non-GAAP EPS performance targets.

Established concrete personal objectives for the purpose of individual performance review to determine allocation of the 2017 Annual Incentive Plan pool, if funded, among eligible Company employees.

Made no payments under the 2017 Annual Incentive Plan.

Made grants of time-based restricted stock awards to our NEOs in amounts based on the market-based job architecture and the recommendation of the independent compensation consultant.

Our Named Executive Officers (NEOs) for 2017

Name	Title
Vyomesh I. Joshi	President, Chief Executive Officer and Director
John N. McMullen	Executive Vice President and Chief Financial Officer
Charles W. Hull	Executive Vice President and Chief Technology Officer
Andrew M. Johnson	Executive Vice President, Chief Legal Officer and Secretary
Kevin P. McAlea	Executive Vice President and General Manager, Metals & Healthcare

Say-on-Pay

The Dodd-Frank Act provides stockholders with an advisory vote (say-on-pay) on the compensation of a company's NEOs. We currently hold this say-on-pay vote on an annual basis. At the 2017 Annual Meeting, approximately 76% of the votes cast on this proposal approved the compensation of our NEOs on an advisory basis. The Compensation Committee considered these results in its design of our executive compensation program for 2017 and will consider the results of future advisory votes on executive compensation as our compensation philosophy continues to evolve and compensation decisions are made each year. As a result of the results of the 2017 say-on-pay vote, our Compensation Committee decided to engage an independent compensation consultant for the first time in 2017 to assist in the performance of a comprehensive review of our executive compensation program and practices and to provide the Compensation Committee guidance in the establishment of the 2018 executive compensation program.

Engagement with Our Stockholders

Over the last year, we continued our outreach efforts to stockholders to maintain an ongoing dialogue and solicit feedback regarding our executive compensation program, corporate governance, certain stockholder proposals, and other important issues to our stockholders. Since our 2017 Annual Meeting, we have contacted 21 of our largest stockholders, representing over 44% of our outstanding shares of Common Stock as of December 31, 2017, to discuss a broad range of topics, including executive compensation. Our Compensation Committee considers stockholder feedback in its annual review of program components, targets, and payouts to stay current with emerging executive compensation practices, maintain our pay-for-performance alignment, and maintain stockholder support. The revision to our annual incentive program for 2017 so that the pool available for payout thereunder is based 100% on the achievement of pre-determined corporate financial objectives and the revision to our long-term equity compensation program in 2018 so that performance share units have finite measurement periods are based in part on feedback we have received during our stockholder engagement efforts.

Transitions Involving our Named Executive Officers

In October 2015, Avi Reichental, our former President and CEO, left the Company after 12 years of service. In connection with his departure, the Board of Directors appointed Andrew M. Johnson as the Company's President and CEO on an interim basis. The Board charged its Executive Committee with leading the search for a permanent CEO, which it successfully accomplished with the hiring of Vyomesh I. Joshi on April 1, 2016. On July 1, 2016, John N. McMullen was appointed as our Executive Vice President and Chief Financial Officer.

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Our Executive Compensation Philosophy

Our executive compensation program, practices and policies have been structured to reflect the Board's commitment to excellence in corporate governance, and to align rewards with achievement of short- and long-term performance objectives that drive stockholder value. The compensation we pay to employees is generally subject to the same principles and guidelines that apply to our executive compensation program. Nevertheless, the following is a discussion and analysis of the material elements of our compensation programs as it relates to the NEOs.

Determining Executive Compensation

The Compensation Committee is responsible for setting the compensation of all executive officers, including the NEOs. It is also responsible for setting the compensation of any other employees of the Company or our subsidiaries who report directly to our CEO or have base annual salaries of \$300,000 or more. For additional information about the responsibilities of this Committee, see *Corporate Governance Matters Compensation Committee* above.

The Compensation Committee reviews the CEO's recommendation for each of the other NEO's compensation during the first quarter of each year. The purpose of this annual review is:

to determine the amount of any annual incentive compensation to be awarded to each NEO for the preceding calendar year;

to determine any adjustments to be made to the annual salary of each NEO for the current year; and

to approve our incentive compensation program for the current year and establish target incentive bonuses for the current calendar year for each of the NEOs.

As part of this review, our CEO gives the Compensation Committee a recommendation for incentive compensation awards for the prior year, salary adjustments for the current year and target incentive bonuses for the current year for each other NEO. In 2017, we established a new market-based job architecture for all employees to ensure appropriate levels of pay at each employee classification across the Company. Additionally, concrete personal objectives were established for each NEO by which such executive's individual performance is measured. Our CEO uses the market-based job architecture and evaluation of each individual NEO's progress towards assigned strategic imperatives and concrete personal objectives to guide his compensation recommendations to the Compensation Committee. The Committee reviews those recommendations and modifies them to the extent it considers appropriate. As part of this process, the Committee approves the amount of any annual incentive compensation to be awarded to each individual with respect to the preceding calendar year, approves the amount of any adjustments to be made to the annual salary of each such individual for the current year, approves the terms of our incentive compensation program for the current calendar year, and establishes target incentive bonuses for the current year for each of our NEOs and each of the other individuals whose compensation it oversees. The Committee may also approve adjustments to compensation for specific individuals at other times during any year when there are significant changes in the responsibilities of such individuals or under other circumstances that the Committee considers appropriate.

Our CEO's compensation is determined under similar principles but follows a different process. This process is designed to comply with applicable law and listing requirements under which, after discussing his self-evaluation with him and receiving the views of other independent directors, the Compensation Committee evaluates his performance, reviews the Committee's evaluation with him, and, based on that evaluation and review, determines his compensation and personal annual incentive objectives. Our CEO is excused from meetings of the Committee during voting or deliberations regarding his compensation.

Compensation Consultant and Compensation Peer Group

In 2017, the Compensation Committee directly engaged Pearl Meyer to assist in the performance of a comprehensive review of our executive compensation program and practices and to provide the Compensation Committee guidance in the establishment of the 2018 executive compensation program. Pearl Meyer provides no

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services to the Company other than to the Compensation Committee, and is therefore independent of the management of the Company. During 2017, Pearl Meyer assisted the Committee in developing a peer group to serve as a market reference for establishing and evaluating fiscal 2018 compensation for our NEOs. Our fiscal 2018 peer group is comprised of 15 publicly-traded, industry-specific companies. These companies were selected after the consideration of various criteria, including:

quantitative criteria, including revenue size, margins, market cap, headcount and R&D spend;

qualitative criteria, including service and product offerings and end markets served; and

likely competitors for executive talent.

Elements of Executive Compensation

Our executive compensation program is designed to focus executive behavior on achievement of both our short- and long-term objectives and strategy as well as align the interests of management with those of our stockholders. To that end, our compensation program consists of the following principal elements:

base annual salaries;

when earned, incentive awards under our annual incentive program; and

long-term equity compensation under our 2015 Incentive Plan.

In reviewing base annual salaries and target annual incentive awards for each NEO, the Compensation Committee also reviews each executive's compensation history with the Company and prior equity awards or grants. The Committee is guided by its own judgment and those sources of information (including, when deemed appropriate, compensation surveys) that the Committee considers relevant and, in 2017, the recommendations of a compensation consultant.

The Compensation Committee believes that the prudent use of judgement in determining compensation will generally be in our best interests and those of our stockholders. Accordingly, the Committee does not rely exclusively upon fixed formulas and, from time to time in exercising its judgement, the Committee may approve changes in compensation that it considers to be appropriate to award performance or otherwise to provide incentives toward achieving our objectives.

The Compensation Committee also seeks to strike a balance that it considers to be appropriate in its discretion between fixed elements of compensation, such as base salaries, and variable performance-based elements represented by annual incentive awards and long-term equity compensation. As a general matter, the Committee believes that our executive officers should have at least one-third of their annual cash compensation opportunity at risk under variable performance-based elements of our incentive compensation program, including in particular our annual incentive program. In most cases, the portion of our NEOs' cash compensation opportunity that is at risk in any year exceeds that level. See *2017 Incentive Compensation Program* below.

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The following charts show the pay mix for our CEO and other NEOs during 2017.

* No annual incentive awards were paid with respect to 2017. See *2017 Incentive Compensation Program* for further details.
Base Salaries

We pay annual salaries to provide executives, including the NEOs, with a base level of monthly compensation for services rendered during the year. Salaries are also designed to help achieve our objectives of attracting and retaining executive talent. Adjustments to base salaries are based on the Company's market-based job architecture, which takes into consideration the responsibilities of the executives, the Compensation Committee's evaluation of the market demand for executives with similar capability and experience, and each individual NEO's progress towards assigned strategic imperatives and concrete personal objectives.

Annual Incentive Program

Our annual incentive compensation program is designed to provide appropriate incentives to reward performance and motivate our executives, including the NEOs, to attain our strategic objectives.

This program is adopted annually, is designed with our strategic objectives in mind, and has historically focused partly on the achievement of pre-determined corporate financial objectives and partly, for each executive, on personal objectives. Prior to 2017, 55% of each executive's annual incentive compensation target was based on the achievement of pre-approved corporate financial objectives with the remaining 45% based on the achievement of personal objectives.

In 2017, our Compensation Committee revised our annual incentive compensation program so that the pool available for payout thereunder is based 100% on the achievement of pre-determined corporate financial objectives. Under the new annual incentive compensation program, if the pre-determined corporate financial objectives are achieved and the pool is funded, the allocation of the pool among participants is based on each participant's progress towards assigned strategic-imperatives and concrete personal objectives. If the pre-determined corporate financial objectives are not achieved, no employees receive awards under our annual incentive compensation program. Even if the pre-determined corporate financial objectives are achieved, our Compensation Committee always retains the discretion to reduce the funding of the Company-wide annual incentive plan pool or any individual participant's award.

As an overriding condition, a failure to perform in accordance with our Code of Conduct or Code of Ethics may serve as a basis for a participant in this program not to receive an incentive award. We consider this aspect of our incentive compensation program to be consistent with sound principles of corporate governance.

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As part of its goal-setting process, the Compensation Committee establishes current-year target incentive awards for each NEO with the following principles in mind:

Targets are used to determine the amount of any annual incentive that an NEO can expect to receive if we achieve our financial objectives for the year in question and such NEO achieves his personal objectives for that year. In setting these target incentive awards, the Committee considers each NEO's level of responsibility and the recommendations of our CEO.

Target incentive awards are set at levels that are designed to link a substantial portion of each NEO's total annual compensation opportunity to attaining the corporate objectives and the individual and team objectives established for each NEO for the year in question. In general, at least one-third of each NEO's annual cash compensation opportunity is at risk. See *Grants of Plan Based Awards in 2017* below for a summary of target incentive awards for the NEOs applicable to 2017.

No minimum incentive awards are guaranteed to NEOs. The pool for the annual incentive plan is not funded unless the Company achieves certain predetermined financial objectives.

Base target amounts represent the incentive awards that could be awarded assuming achievement of 100% of the pre-determined financial objectives. Our current base target awards for each of the participating NEOs are equal to 50% of their current base salaries, except for the CEO, whose base target award was set at 100% of his 2017 annual base salary.

Maximum amounts represent the maximum amount that may generally be awarded to each NEO under the program for the year in question. Our current maximum annual incentive awards are equal to 150% of the target annual incentive awards for each of our NEOs.

Financial objectives are determined based on our business plan for the year in question. This business plan is developed by management and approved by the Board of Directors. Concrete personal objectives for all NEOs other than the CEO are developed through collaboration between each NEO and the CEO. The CEO's personal objectives are reviewed and approved by the Compensation Committee. The Compensation Committee maintains the ability to adjust performance objectives for extraordinary items and other items as it deems appropriate.

With respect to financial measures, 100% of each NEO's bonus related to each financial measure would generally be deemed to have been earned if the target for that financial measure is fully achieved.

Each NEO's performance is measured against his personal objectives, and such performance is used to determine the allocation of the bonus pool if, and only if, the pool is funded by the Company's achievement of the pre-determined corporate financial objectives.

For a discussion of the 2017 Annual Incentive Program, see below at *2017 Incentive Compensation Program*.

Long-Term Equity Compensation

The Compensation Committee administers our 2015 Incentive Plan. Under the 2015 Incentive Plan, the Committee is authorized to grant restricted stock awards, restricted stock units, stock options and other awards that are provided for under the 2015 Incentive Plan to such of our employees and employees of our subsidiaries as the Committee determines to be eligible for awards. Awards granted to a participant are based upon a number of factors, including the recipient's position, salary and performance as well as our overall corporate performance.

The 2015 Incentive Plan is intended to provide an effective method of motivating performance from key employees, including our NEOs, and of creating an alignment of interests in participants with the interests of our stockholders. Awards are made under the 2015 Incentive Plan as long-term incentive compensation to NEOs and other key employees when the Committee believes such awards are appropriate.

The Compensation Committee makes awards under the 2015 Incentive Plan both to reward performance and to motivate the recipient's long-term performance. Historically, the majority of the equity awards made to our executive officers under the Plans have been restricted stock awards

with time-based vesting conditions. In 2016,

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our Committee granted stock options and restricted stock awards with share price-based vesting conditions under the 2015 Incentive Plan. The equity awards with share price-based vesting conditions granted to our NEOs in 2016 do not vest until the closing price of our Common Stock on each of the trading days during the immediately prior ninety consecutive calendar days is at least \$30 or \$40, as applicable, representing a significant increase in market capitalization as compared to the closing price of our Common Stock on the date of grant.

As mentioned above, the Compensation Committee engaged Pearl Meyer in 2017 to assist the Committee in its review and evaluation of the compensation for the executive officers. Consequent to the Compensation Committee's comprehensive review, we granted restricted stock awards with time-based vesting conditions to our executive officers, including our NEOs, in December 2017 and performance share units in February 2018. The performance share units were granted in February 2018 so that we could review more current perspectives on our business outlook and budgeting process when establishing revenue and operating income performance targets. These performance share unit awards will be earned by the NEOs only upon our achievement of pre-determined levels of 2018 revenue and operating income. If earned, the performance share unit awards vest in three equal annual installments.

Restricted stock awards and performance share unit awards issued pursuant to the 2015 Incentive Plan remain subject to forfeiture until the vesting of such shares pursuant to the terms of the applicable award. Stock options made under the 2015 Incentive Plan generally have a 10 year term and an exercise price based on the fair market value of our Common Stock on the date of grant.

Shares of restricted stock, performance share units and stock options issued pursuant to the 2015 Incentive Plan may not be sold, transferred or encumbered by the employee prior to vesting (and exercise in the case of stock options). The compensation associated with these awards is expensed over the vesting period. The shares covered by restricted stock awards are considered outstanding upon issuance following the acceptance of each award for the purpose of calculating diluted earnings per common share, and holders of shares issued pursuant to restricted stock awards are entitled to vote such shares and to receive any dividends declared in respect of our Common Stock. Shares covered by performance share units are not considered outstanding until vested and shares covered by stock option awards are not considered outstanding until exercise except, in each case, for the purpose of calculating diluted earnings per common share. The holders of performance share units and stock options are not entitled to vote shares or receive any dividends declared with respect to the shares covered by such awards.

2017 Salaries

At its meeting on March 27, 2017, the Compensation Committee determined not to make any changes to the base salaries of our NEOs in 2017. The current base salaries of our NEOs are as follows:

Name	Base Salary (\$)
Vyomesh I. Joshi	925,000
John N. McMullen	500,000
Charles W. Hull	389,000
Andrew M. Johnson	333,000
Kevin P. McAlea	389,000

2017 Incentive Compensation Program

Consistent with the principles discussed above, at its meetings on February 6, 2017 and March 27, 2017, the Compensation Committee approved an annual incentive program for 2017. The 2017 target incentive awards for each the participating NEOs were set at 50% of their 2017 annual base salaries, except for Mr. Joshi, whose 2017 target incentive award was set at 100% of his 2017 annual base salary. The 2017 threshold and maximum annual incentive award for all NEOs were set at 50% and 150%, respectively, of the target annual incentive award.

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Additionally, the Compensation Committee approved the following performance objectives for the funding of the 2017 annual incentive program:

40% of the funding of 2017 annual incentive program bonus pool based on the achievement of an annual revenue budget;

40% of the funding of 2017 annual incentive program bonus pool based on the achievement of an annual budgeted level of non-GAAP earnings per share; and

20% of the funding of 2017 annual incentive program bonus pool based on the achievement of positive cash flow from operations. In February 2018, the Compensation Committee determined that, based on 2017 Company performance, none of the NEOs would receive any payments under the 2017 annual incentive plan.

2017 Equity Awards

In December 2017, the Compensation Committee made restricted stock awards under the 2015 Incentive Plan to a number of employees, including the NEOs, to reflect the contributions that those individuals have made to our operations and financial condition, to provide motivation toward achieving our future strategic objectives and to further align the interests of those individuals with our stockholders. The awards made to our NEOs were in the form of time based restricted stock awards that vest in three equal installments on August 15 of 2018, 2019 and 2020. The restricted stock awards made to these NEOs during 2017 were as follows:

Name	Time-Based Restricted Shares (#)	Aggregate Fair Market Value of Grants(1) (\$)
Vyomesh I. Joshi	114,026	1,000,008
John N. McMullen	34,208	300,004
Charles W. Hull	22,806	200,009
Andrew M. Johnson	27,081	237,500
Kevin P. McAlea	34,208	300,004

- (1) The amounts represent the aggregate grant date fair value computed in accordance with ASC Topic 718 and are determined by multiplying the number of shares awarded by the closing price of our Common Stock on the date of grant.

February 2018 Performance Equity Awards

At a meeting in February 2018 the Compensation Committee made performance share unit awards under the 2015 Incentive Plan to a number of employees, including the NEOs, to reflect the contributions that those individuals have made to our operations and financial condition, to provide motivation toward achieving our future strategic objectives and to further align the interests of those individuals with our stockholders. The performance share units will be earned only upon our achievement of pre-determined levels of 2018 revenue and operating income. Threshold, target, and maximum levels of 2018 revenue and operating income were established, and the performance share units subject to the awards may be adjusted downward to 50% of target and upward to 150% of target upon based on our actual levels of 2018 revenue and operating income. If earned, the performance share units vest in three equal installments. The target performance share unit awards made to our NEOs in February 2018 were as follows:

Name	Target Performance	Aggregate Fair Market
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	Share Units (#)	Value of Grants \$(1)
Vyomesh I. Joshi	114,026	1,165,345
John N. McMullen	34,208	349,606
Charles W. Hull	22,806	233,077
Andrew M. Johnson	27,081	276,768
Kevin P. McAlea	34,208	349,606

- (1) The amounts represent the aggregate grant date fair value computed in accordance with ASC Topic 718 and are determined by multiplying the target number of units awarded by the closing price of our Common Stock on the date of grant.

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Employment Agreements and Other Agreements with NEOs

In April 2016 and July 2016, Vyomesh I. Joshi and John N. McMullen joined the Company as our President and CEO and Executive Vice President and Chief Financial Officer, respectively. In connection with each of these appointments, we entered into an employment agreement under which we have agreed to certain compensation arrangements and severance benefits. With the purpose of retaining our key executive officers during a significant management transition, we entered into similar employment agreements with each of Messrs. Hull and Johnson in 2016. Mr. McAlea has an existing severance agreement with the Company.

Each of these agreements was determined based on negotiations with the applicable NEO and taking into account his background and qualifications and the nature of his position. We believe that these compensation packages are appropriate in light of the intense competition for top executives in our industry and among similarly-situated companies, and that the terms of these arrangements are consistent with our executive compensation goals, including the balancing of short-term and long-term compensation to properly motivate our NEOs.

Vyomesh I. Joshi

Mr. Joshi's employment agreement provides for a minimum base annual salary of \$925,000 and a minimum target bonus opportunity of 100% of his base salary, with the exact amount of any such bonus to be based upon the achievement of performance goals to be determined by the Compensation Committee. The employment agreement entitles Mr. Joshi to participate in all other benefits generally available to our other executive employees, including participation in the Company's health benefit plans and equity award programs. Pursuant to the employment agreement entered into in connection with his hiring, Mr. Joshi was also granted the following equity awards: (1) 150,000 shares of restricted stock that vest in three equal annual installments; (2) 500,000 stock option awards, comprised half of option awards subject to \$30 per share price-based vesting conditions and half of option awards subject to \$40 per share price-based vesting conditions; and (3) 75,000 shares of restricted stock, 50,000 of which are subject to \$30 per share price-based vesting conditions and 25,000 of which shares are subject to \$40 per share price-based vesting conditions. Mr. Joshi is not guaranteed any further equity awards under his employment agreement, but is entitled to participate in our equity compensation plans generally available to our executive officers.

Our employment agreement with Mr. Joshi provides for an initial two-year employment term that automatically extends for additional one-year periods unless terminated by Mr. Joshi or us upon at least 30 days' prior written notice of intention not to renew. The agreement may also be terminated by us or Mr. Joshi for other reasons and, subject to the conditions set forth in the employment agreement, provides for certain payments and benefits in connection with certain termination events or a change of control as described under *Potential Benefits upon Termination or Change of Control* beginning on page 37 below.

John N. McMullen

Mr. McMullen's employment agreement provides for a minimum base annual salary of \$500,000 and a minimum target bonus opportunity of 50% of his base salary, with the exact amount of any such bonus to be based upon the achievement of performance goals to be determined by the Compensation Committee. The employment agreement entitles Mr. McMullen to participate in all other benefits generally available to our other executive employees, including participation in the Company's health benefit plans and equity award programs. Pursuant to the employment agreement entered into in connection with his hiring, Mr. McMullen was also granted the following equity awards: (1) 75,000 shares of restricted stock that vest in three equal annual installments; (2) 200,000 stock option awards, comprised half of option awards subject to \$30 per share price-based vesting conditions and half of option awards subject to \$40 per share price-based vesting conditions; and

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(3) 50,000 shares of restricted stock, half of which are subject to \$30 per share price-based vesting conditions and half of which are subject to \$40 per share price-based vesting conditions. Mr. McMullen is not guaranteed any further equity awards under his employment agreement, but is entitled to participate in our equity compensation plans generally available to our executive officers.

Our employment agreement with Mr. McMullen provides for an initial two-year employment term that automatically extends for additional one-year periods unless terminated by Mr. McMullen or us upon at least 30 days' prior written notice of intention not to renew. The agreement may also be terminated by us or Mr. McMullen for other reasons and, subject to the conditions set forth in the employment agreement, provides for certain payments and benefits in connection with certain termination events as described under *Potential Benefits upon Termination or Change of Control* beginning on page 37 below.

Charles W. Hull

Mr. Hull's employment agreement provides for a minimum base annual salary of \$389,000. Mr. Hull is also entitled to receive cash performance bonuses, with the exact amount of any such bonus to be based upon the achievement of performance goals to be determined by the Compensation Committee. The employment agreement entitles Mr. Hull to participate in all other benefits generally available to our other executive employees, including participation in the Company's health benefit plans and equity award programs. Pursuant to his employment agreement, we entered into amendments to the following three restricted stock purchase agreements with Mr. Hull: (i) the Restricted Stock Purchase Agreement, dated November 18, 2013; (ii) the Restricted Stock Purchase Agreement, dated November 17, 2014; and (iii) the Restricted Stock Award Agreement, dated November 13, 2015. The restricted stock amendments provide that in the event Mr. Hull's employment or service with the Company is terminated on a date prior to the third anniversary of the date of the applicable grant either by the Company without cause, or by Mr. Hull as a result of a Constructive Discharge, as defined in his employment agreement, then Mr. Hull's interest in such restricted stock awards shall become vested and nonforfeitable on a pro-rata basis.

Our employment agreement with Mr. Hull provides for an initial two-year employment term that automatically extends for additional one-year periods unless terminated by Mr. Hull or us upon at least 30 days' prior written notice of intention not to renew. The agreement may also be terminated by us or Mr. Hull for other reasons and, subject to the conditions set forth in the employment agreement, provides for certain payments and benefits in connection with certain termination events as described under *Potential Benefits upon Termination or Change of Control* beginning on page 37 below.

Andrew M. Johnson

Mr. Johnson's employment agreement provides for a minimum base annual salary of \$333,000. Mr. Johnson is also entitled to receive cash performance bonuses, with the exact amount of any such bonus to be based upon the achievement of performance goals to be determined by the Compensation Committee. The employment agreement entitles Mr. Johnson to participate in all other benefits generally available to our other executive employees, including participation in the Company's health benefit plans and equity award programs. Pursuant to his employment agreement, we entered into amendments to the following three restricted stock purchase agreements with Mr. Johnson: (i) the Restricted Stock Purchase Agreement, dated February 4, 2014; (ii) the Restricted Stock Purchase Agreement, dated February 3, 2015; and (iii) the Restricted Stock Award Agreement, dated November 13, 2015. The restricted stock amendments provide that in the event Mr. Johnson's employment or service with the Company is terminated on a date prior to the third anniversary of the date of the applicable grant either by the Company without cause, or by Mr. Johnson as a result of a Constructive Discharge, as defined in his employment agreement, then Mr. Johnson's interest in such restricted stock awards shall become vested and nonforfeitable on a pro-rata basis.

Our employment agreement with Mr. Johnson provides for an initial two-year employment term that automatically extends for additional one-year periods unless terminated by Mr. Johnson or us upon at least 30 days' prior written notice of intention not to renew. The agreement may also be terminated by us or Mr. Johnson for other reasons and, subject to the conditions set forth in the employment agreement, provides for certain

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payments and benefits in connection with certain termination events as described under *Potential Benefits upon Termination or Change of Control* beginning on page 37 below.

Kevin McAlea

The Company and Mr. McAlea are parties to a severance arrangement pursuant to which Mr. McAlea would become entitled to severance payments equal to nine months of his then current salary if his employment is terminated other than for cause.

Change of Control Severance Policy

On February 22, 2018, the Compensation Committee adopted the Company's Change of Control Severance Policy (the COC Severance Policy). The COC Severance Policy is intended to provide eligible officers with reasonable financial security in their employment and position with the Company, without distraction from uncertainties regarding their employment created by the possibility of a potential or actual change of control. The COC Severance Policy applies to our Chief Executive Officer and all Executive Vice Presidents and Senior Vice Presidents (each, a Participant), which includes all of our NEOs. For a more detailed discussion of the benefits payable to our NEOs under the COC Severance Policy, see *Potential Benefits upon Termination or Change of Control* beginning on page 37 below.

Other Compensation Matters

Benefits and Perquisites

We provide our employees, including the NEOs, with a benefit program that we believe is reasonable, competitive and consistent with the objectives of our compensation program. As a matter of policy, the Compensation Committee does not award personal benefits or perquisites to our NEOs that are unrelated to our business. However, under certain circumstances discussed below, the Committee has approved certain personal benefits or perquisites that are either provided to an NEO by contract or that it deemed to be in our interests in order to induce executives to commence or maintain employment with us. Those amounts are reported in the Summary Compensation Table. All other perquisites for the NEOs amount to less than \$10,000 per person.

Our executives, including the NEOs, are eligible to participate in employee benefit programs that we provide to our employees generally, which include a group insurance program providing group health, dental, vision, life and long-term disability insurance. Other benefits include a Section 401(k) plan, health savings accounts, flexible spending accounts for health and dependent care expenses, sick leave, holiday time and vacation time.

Accounting and Tax Considerations

The Committee generally considers the financial accounting implications of stock awards and other compensation to the Company's executive officers in evaluating and establishing the Company's compensation policies and practices. Section 162(m) of the Code limits to \$1 million the U.S. federal income tax deductibility of compensation paid in one year to certain covered employees, including a company's principal executive officer and the next three highest paid executive officers. Prior to the enactment of the Tax Cuts and Jobs Act in December 2017, certain types of compensation to these covered employees were deductible if the requirements of Section 162(m) of the Code with respect to performance-based compensation were satisfied.

For 2018 and subsequent years, covered officers include the principal executive officer, principal financial officer and next three highest paid executive officers. Compensation paid in 2018 and later years will generally be subject to the \$1 million deduction limits of Section 162(m) of the Code, without an exception for performance-based compensation.

The Committee believes that in establishing incentive compensation programs for our NEOs, the potential deductibility of the compensation payable should be only one of several factors taken into consideration and not the sole governing factor. As was the case prior to the enactment of the Tax Cuts and Jobs Act, the Committee

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will continue to monitor issues concerning the deductibility of executive compensation. Since corporate objectives may not always be consistent with the requirements for tax deductibility, the Committee is prepared, when it deems appropriate, to enter into compensation arrangements under which payments will not be deductible under Section 162(m) of the Code. Thus, deductibility will be continue to be one of many factors considered by the Committee in ascertaining appropriate levels or modes of compensation.

Stock Performance

While we generally consider matters such as stock performance and total return to our stockholders in making compensation decisions, we do not consider them as controlling factors in making compensation decisions. Short-term movements in our stock price and total return to stockholders as reflected in the performance of our stock price are subject to factors, including factors affecting the securities markets generally, that are unrelated to our performance.

Our priorities and the priorities of our management are centered on achieving our strategic objectives, meeting customer needs, new product development, increasing cash generation, identifying, completing and successfully integrating strategic investments, and promoting operational excellence and innovation. The pursuit of such longer range objectives is not necessarily consistent with producing short-term results to increase our stock price or stockholder return, but we believe that pursuing these longer range objectives should result in performance that is more likely to maximize total return to our stockholders over time.

Since our executive compensation is based upon factors relating to our growth and profitability and the performance of our business as well as the contributions of each of our executives to achieving our objectives, we believe that we have provided appropriate incentives to align management's interests with our long-term growth and development and the interests of our stockholders. We also believe that there are many ways in which our executives contribute to building a successful company. While our financial statements and stock price reflect the results of some of those efforts, many long-term strategic decisions made in pursuing our growth and development may have little visible impact on our stock price in the short term.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the section titled Compensation Discussion and Analysis. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that such section be included in this Proxy Statement.

Compensation Committee:

Kevin S. Moore, Chair

William E. Curran

William D. Humes

Table of Contents**Summary Compensation Table**

The following table presents information regarding compensation of each of the NEOs for services rendered during fiscal 2017, 2016 and 2015. Mr. Joshi joined the Company on April 1, 2016 and Mr. McMullen joined the Company on July 1, 2016. Therefore, the table does not show compensation information for Messrs. Joshi and McMullen prior to 2016.

Name and Principal Position	Year	Salary (\$)	Bonus(1) (\$)	Restricted Stock Awards(2) (\$)	Option Awards(3) (\$)	Non-Equity Incentive Plan Compensation(4) (\$)	All Other Compensation(5) (\$)	Total (\$)
Vyomesh I. Joshi <i>President and Chief Executive Officer</i>	2017	925,000		1,000,008			8,100	1,933,108
	2016	661,730		3,402,000	3,842,500	277,753		8,183,984
	2015							
John N. McMullen <i>Executive Vice President and Chief Financial Officer</i>	2017	500,000		300,004			7,964	807,968
	2016	232,692		1,676,250	1,552,000	50,137		3,511,079
	2015							
Charles W. Hull <i>Executive Vice President and Chief Technology Officer</i>	2017	389,000		200,009			7,002	596,011
	2016	386,727		1,192,500	1,228,000	77,800		2,885,027
	2015	370,962	100,000	437,500		65,625		974,087
Andrew M. Johnson <i>Executive Vice President and Chief Legal Officer</i>	2017	333,000		237,500			42,493	612,993
	2016	329,500	102,967	1,192,500	1,228,000	66,600		2,919,567
	2015	314,616	151,553	2,095,450				

-

-

1,418

Cancellation of shares granted to service providers

(1,800,000)

*

-

-

-

-

Deferred stock-based compensation related
to options granted to employees

-

-

5,979

(5,979)

-

-

Amortization of deferred stock-based
compensation related to shares and
options granted to employees

-

-

-

584

-

584

Compensation related to shares and
options granted to service providers

2,025,000

*

-

17,506

-

-

17,506

Net loss

-

-

-

-

(18,840)

(18,840)

Balance as of March 31, 2005

20,867,808

\$

1

\$

25,101

\$

(5,395)

\$

(19,003)

\$

704

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

Elimination of deferred stock compensation due to implementation of ASC 718-10 (formerly SFAS 123(R))	-	-	(1,395)	1,395	-	-
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	Capital	Additional paid-in compensation	Deferred Stock - based stage	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
Balance as of December 31, 2006	24,201,812	\$ 1	\$ 24,427	\$ -	\$ (26,244)	\$ (1,816)
Stock-based compensation related to options and shares granted to service providers	544,095		1,446	-	-	1,446
Warrants issued to convertible note holder	-	-	109	-	-	109
Stock-based compensation related to shares and options granted to directors and employees	200,000	* -	1,232	-	-	1,232
Beneficial conversion feature related to convertible loans	-	-	407	-	-	407
Conversion of convertible loans	725,881	* -	224	-	-	224
Exercise of warrants	3,832,621	* -	214	-	-	214
Stock issued for private placement at \$0.1818 per unit, net of finder's fee	11,500,000	1	1,999	-	-	2,000
Net loss	-	-	-	-	(6,244)	(6,244)
Balance as of December 31, 2007	41,004,409	\$ 2	\$ 30,058	\$ -	\$ (32,488)	\$ (2,428)
Stock-based compensation related to options and stock granted to service providers	90,000	-	33	-	-	33
Stock-based compensation related to stock and options granted to directors and employees	-	-	731	-	-	731
Conversion of convertible loans	3,644,610	* -	1,276	-	-	1,276
Exercise of warrants	1,860,000	* -	-	-	-	-

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

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

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

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

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

U.S. dollars in thousands

(Except share data)

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

* Represents an amount less than \$1.

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

U.S. dollars in thousands

(Except share data)

	Common stock Number	Common stock Amount	Additional paid-in capital	Deferred Stock - based compensation	Deficit accumulated during the development stage	Total stockholders' equity
Balance as of December 31, 2012	150,085,035	\$ 7	\$ 51,483	\$ -	\$(47,508)	\$ 3,982
Stock-based compensation related to options and stock granted to service providers	809,696		183	-	-	183
Stock-based compensation related to stock and options granted to directors and employees	760,000		439	-	-	439
Issuance of shares for public offering	23,529,411	1	3,325	-	-	3,326
Issuance of shares for private placement	833,334	-	250	-	-	250
Conversion of convertible loans	126,111	-	30	-	-	30
Exercise of options	100,000	-	7	-	-	7
Net loss	-	-	-	-	\$(3,682)	\$(3,682)
Balance as of September 30, 2013	176,243,587	8	55,717	-	\$(51,190)	4,535

* 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)

	Nine months ended September 30, 2013		Three months ended September 30, 2013		Period from September 22, 2000 (inception date) through September 30, 2013(*)
	2012	2012	2012	2012	Unaudited
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Cash flows from operating activities:					
Net loss	\$ (3,682)	\$ (2,851)	\$ (1,082)	\$ (1,150)	\$ (51,190)
Less - loss for the period from discontinued operations	-	-	-	-	164
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization of deferred charges	77	116	27	40	1,235
Severance pay, net	29	6	22	5	46
Accrued interest on loans	-	-	-	-	451
Amortization of discount on short-term loans	-	-	-	-	1,864
Change in fair value of options and warrants	-	-	-	-	(795)
Expenses related to shares and options granted to service providers	213	46	11	38	21,894
Amortization of deferred stock-based compensation related to options granted to employees	439	440	(75)	127	7,820
Decrease (increase) in accounts receivable and prepaid expenses	231	(121)	198	56	(557)
Increase (decrease) in trade payables and convertible note	88	(50)	73	(321)	919
Increase in other accounts payable and accrued expenses	159	175	113	131	1,446
Erosion of restricted cash	-	-	-	-	(6)

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Net cash used in continuing operating activities	(2,446)	(2,239)	(713)	(1,074)	(16,709)
Net cash used in discontinued operating activities	-	-	-	-	(23)
Total net cash used in operating activities	\$ (2,446)	\$ (2,239)	\$ (713)	\$ (1,074)	\$ (16,732)

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)

	Nine months ended September 30, 2013		Three months ended September 30, 2013		Period from September 22, 2000 (inception date) through September 30, 2013
	2012		2012		2013
	Unaudited		Unaudited		Unaudited
Cash flows from investing activities:					
Purchase of property and equipment	(97)	(75)	(31)	(14)	(1,320)
Restricted cash	-	-	-	-	6
Changes in short-term deposit	(2,017)	-	(3,006)	-	(4,786)
Investment in lease deposit	(11)	-	(2)	-	(28)
Net cash used in continuing investing activities	(2,125)	(75)	(3,039)	(14)	(6,128)
Net cash used in discontinued investing activities	-	-	-	-	(16)
Total net cash used in investing activities	\$ (2,125)	\$ (75)	\$ (3,039)	\$ (14)	\$ (6,144)
Cash flows from financing activities:					
Proceeds from issuance of Common stock, net	3,576	5,028	3,326	5,028	20,918
Proceeds from loans, notes and issuance of warrants, net	-	-	-	-	2,061
Proceeds from exercise of warrants and options	7	146	-	-	784
Repayment of short-term loans	-	-	-	-	(601)
Net cash provided by continuing financing activities	3,583	5,174	3,326	5,028	23,162
Net cash provided by discontinued financing activities	-	-	-	-	43
Total net cash provided by financing activities	\$ 3,583	\$ 5,174	\$ 3,326	\$ 5,028	\$ 23,205

Increase (decrease) in cash and cash equivalents	(988)	2,860	(426)	3,940	329
Cash and cash equivalents at the beginning of the period	1,317	1,923	755	843	-
Cash and cash equivalents at end of the period	\$ 329	\$ 4,783	\$ 329	\$ 4,783	\$ 329

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 1 - GENERAL

- A.** Brainstorm Cell Therapeutics Inc. (formerly: Golden Hand Resources Inc. - the "Company") was incorporated in the State of Washington on September 22, 2000.
- B.** On May 21, 2004, the former major stockholders of the Company entered into a purchase agreement with a group of private investors, who purchased from the former major stockholders 6,880,000 shares of the then issued and outstanding 10,238,000 shares of Common Stock.
- C.** On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), to acquire certain stem cell technology (see Note 4). Subsequent to this agreement, the Company decided to focus on the development of novel cell therapies for neurodegenerative diseases based on the acquired technology and research to be conducted and funded by the Company.

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

- D.** On October 25, 2004, the Company formed a wholly-owned subsidiary in Israel, Brainstorm Cell Therapeutics Ltd. ("BCT").
- E.** On November 18, 2004, the Company changed its name from Golden Hand Resources Inc. to Brainstorm Cell Therapeutics Inc. to better reflect its new line of business in the development of novel cell therapies for neurodegenerative diseases. BCT, as defined above, owns all operational property and equipment.

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

- F.** On September 17, 2006, the Company changed the Company's fiscal year-end from March 31 to December 31.
- G.** In December 2006, the Company changed its state of incorporation from Washington to Delaware.
- H.** Since its inception, the Company has devoted substantially all of its efforts to research and development, recruiting management and technical staff, acquiring assets and raising capital. In addition, the Company has not generated revenues. Accordingly, the Company is considered to be in the development stage, as defined in "Accounting and reporting by development Stage Enterprises" ASC 915-10.
- I.** In October 2010, the Israeli Ministry of Health ("MOH") granted clearance for a Phase I/II clinical trial using the Company's autologous NurOwn stem cell therapy in patients with amyotrophic lateral

sclerosis ("ALS"), subject to some additional process specifications as well as completion of the sterility validation study for tests performed.

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 1 - GENERAL (Cont.):

- K.** On February 19, 2013, Brainstorm Ltd established a wholly-owned subsidiary, Brainstorm Cell Therapeutics UK Ltd. ("Brainstorm UK"). Brainstorm UK will act on behalf of the parent Company in the EU.
- L.** On February 21, 2013, Brainstorm UK filed a request for Orphan Medicinal Product Designation by the European Medicine Agency (EMA) for its Autologous Bone Marrow derived Mesenchyme Stromal cells Secreting Neurotropic factors (MSC-NTF, NurOwn).
- M.** On April 8, 2013, the Company entered into an agreement with Dana-Farber Cancer Institute ("Dana-Farber") to provide cGMP-compliant clean room facilities for production of the Company's NurOwn stem cell candidate during its upcoming Phase II ALS trial in the United States. The Company's Phase II trial, to be launched in the second half of 2013 pending FDA approval, will be conducted at Massachusetts General Hospital ("MGH"), the University of Massachusetts ("UMass") Hospital and the Mayo Clinic. The Connell and O'Reilly Cell Manipulation Core Facility at Dana-Farber will produce NurOwn for the MGH and UMass Hospital clinical sites.
- N.** On April 18, 2013, the stockholders of the Company authorized the Board of Directors of the Company, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding shares of common stock by a ratio of between 1-for-10 and 1-for-20, inclusive, without further approval or authorization of the Company's stockholders.
- O.** On July 17, 2013, the European Commission granted Orphan Drug Designation to the Company's NurOwn autologous adult stem cell product for the treatment of ALS.
- P.** On September 27, 2013, the Company recently completed treatment of the 12 patients in its ALS Phase IIa dose-escalating clinical trial with the Company's NurOwn technology. The complete and final statistical analysis of the data is expected to be available after 6 months of follow up with the patients. The Company has been informed that one patient in the study expired due to a medical condition unrelated to the Clinical Trial.

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

GOING CONCERN:

As reflected in the accompanying financial statements, the Company's operations for the nine months ended September 30, 2013, resulted in a net loss of \$3,682. The Company's balance sheet reflects an

accumulated deficit of \$51,190. These conditions, together with the fact that the Company is a development stage Company and has no revenues nor are revenues expected in the near future, raise substantial doubt about the Company's ability to continue to operate as a going concern. The Company's ability to continue operating as a "going concern" is dependent on several factors, among them is its ability to raise sufficient additional working capital.

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

In July 2012, the Company raised \$5.7 million, gross, in a public offering (See Note 6B (i)). In August 2013, the Company raised \$4 million, gross, in a public offering (See Note 6B(j)). 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.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2012 are applied consistently in these financial statements.

NOTE 3 - UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in a condensed format and include the consolidated financial operations of the Company and its wholly-owned subsidiary as of September 30, 2013 and for the three months then ended, in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

NOTE 4 - RESEARCH AND LICENSE AGREEMENT

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

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

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

- a) Ramot released the Company from its obligation to fund the extended research period in the total amount of \$1,140. Therefore, the Company reversed an amount in 2009, equal to \$760, from its research and development expenses that were previously expensed.
- b) Past due amounts of \$240 for the initial research period plus interest of \$32 owed by the Company to Ramot was converted into 1,120,000 shares of common stock on December 30, 2009. Ramot was required to deposit the shares with a broker and only sell the shares in the open market after 185 days from the issuance date.

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 4 - RESEARCH AND LICENSE AGREEMENT (Cont.)

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

- a) So long as the making, producing, manufacturing, using, marketing, selling, importing or exporting of such Licensed Product is covered by a Valid Claim or is covered by Orphan Drug Status in such jurisdiction 5% of all Net Sales.
- b) In the event the making, producing, manufacturing, using, marketing, selling, importing or exporting of such Licensed Product is not covered by a Valid Claim and not covered by Orphan Drug status in such jurisdiction 3% of all Net Sales until the expiration of 15 years from the date of the First Commercial Sale of such Licensed Product in such jurisdiction.

NOTE 5 - CONSULTING AGREEMENTS

- A. On July 8, 2004, the Company entered into two consulting agreements with Prof. Eldad Melamed and Dr. Daniel Offen (together, the "Consultants"), under which the Consultants provide the Company scientific and medical consulting services in consideration for a monthly payment of \$6 each. In addition, the Company granted each of the Consultants, a fully vested warrant to purchase 1,097,215 shares of Common Stock at an exercise price of \$0.01 per share. The warrants issued pursuant to the agreement were issued to the Consultants effective as of November 4, 2004. Each of the warrants is exercisable for a seven-year period beginning on November 4, 2005. As of September 2010, all the above warrants had been exercised. In June 2012 an amendment was signed with Dr. Daniel Offen, according to which the company pays Daniel Offen a monthly payment of \$6, out of which \$3 in cash and \$3 by grant of Company stock.
- B. On December 16, 2010, the Company approved a grant of 1,100,000 shares of the Company's Common Stock to the two Consultants, for services rendered through December 31, 2010. Related compensation in the amount of \$220 was recorded as research and development expense. A sum of \$487 was cancelled concurrently with the issuance of the 1,100,000 shares of Common Stock of the Company.
- C. On June 27, 2011, the Company approved an additional grant of 400,000 shares of the Company's Common Stock to Prof. Daniel Offen, for services rendered through December 31, 2009. Related compensation in the amount of \$192 was recorded as research and development expense.
- D. On August 1, 2012, the Company approved an additional grant of 623,077 shares of the Company's Common Stock to the Consultants, for services rendered from January 1, 2011 through June 30, 2012. Related compensation in the amount of \$162 was recorded as research and development expense.
- E. On January 16, 2013, the Company granted the Consultants an aggregate of 216,000 shares of Common Stock for their services from January 1, 2012 through December 31, 2012. Related

compensation in the amount of \$54 was recorded as research and development expense.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL

A. The rights of Common Stock are as follows:

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

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

B. Issuance of shares, warrants and options:

1. Private placements and public offering:

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

(b) On February 23, 2005, the Company completed a private placement for sale of 1,894,808 units for total proceeds of \$1,418. Each unit consisted of one share of Common Stock and a three-year warrant to purchase one share of Common Stock at \$2.50 per share. This private placement was consummated in three tranches which closed in October 2004, November 2004 and February 2005. All warrants are no longer valid.

(c) On August 11, 2005, the Company signed a private placement agreement with investors for the sale of up to 1,250,000 units at a price of \$0.80 per unit. Each unit consisted of one share of Common Stock and one warrant to purchase one share of Common Stock at \$1.00 per share. The warrants were exercisable for a period of three years from issuance. On September 30, 2005, the Company sold 312,500 units for total net proceeds of \$225. On December 7, 2005, the Company sold 187,500 units for total net proceeds of \$135. All warrants are no longer valid.

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

In January 2011, the Company and an investor signed an agreement to balance the remaining amount due to the investor, totaling \$22, against the remaining balance of the investment and the Company issued the above shares and warrants.

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

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

(f) In February 2010, the Company issued 6,000,000 shares of Common Stock to three investors (2,000,000 to each investor) and warrants to purchase an aggregate of 3,000,000 shares of Common Stock (1,000,000 to each investor) with an exercise price of \$0.50 for aggregate proceeds of \$1,500 (\$500 each).

(g) In February 2011, the Company issued 833,333 shares of Common Stock, at a price of \$0.30 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 exercisable for one year for total proceeds of \$250. The warrants are no longer valid.

(h) 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 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 per share for two years, and warrants to purchase 6,407,500 shares of Common Stock at \$0.28 per share for one year, out of which 946,834 were exercised, and 5,460,666 were cancelled.

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

(I) On July 17, 2012, the Company raised \$5.7 million gross proceeds through a public offering ("Public Offering") of its common stock. The Company issued a total of 19,818,968 common stock of \$0.00005 par value, (\$0.29 per share) and 14,864,228 warrants to purchase 0.75 shares of Common Stock for every share purchased in the Public Offering, at an exercise price of \$0.29 per share. The Warrants are exercisable until the 30 month anniversary of the date of issuance. After deducting closing costs and fees, the Company received net proceeds of approximately \$4.9 million.

The Company paid to the Placement Agency, Maxim Group LLC (the "Placement Agent") a cash fee equal to 6% of the gross proceeds of the Public Offering and a corporate finance fee of 1% of the gross proceeds of the Public Offering. In addition, the Company issued to the Placement Agent a two year warrant to purchase up to 493,966 shares of Common Stock (equal to 3% of the number of shares sold in the Public Offering), with an exercise price equal to \$0.348 (120% of the Public offering price). The Warrants are exercisable until the 30 month anniversary of the date of issuance. In addition, the Company issued to Leader Underwriters (1993) Ltd, warrants to purchase 232,758 shares of Common stock, at an exercise price of \$0.29 per share. The warrants are exercisable until the 30 month anniversary of the date of issuance.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

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Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

(j) On August 16, 2013, the Company raised \$4 million gross proceeds through a public offering (“Public Offering”) of its common stock. The Company issued a total of 23,529,411 common stock of \$0.00005 par value, (\$0.17 per share) and 17,647,058 warrants to purchase 0.75 shares of Common Stock for every share purchased in the Public Offering, at an exercise price of \$0.25 per share. The Warrants are exercisable until the 36 month anniversary of the date of issuance. The Warrants also include, subject to certain exceptions, full ratchet anti-dilution protection in the event of the issuance of any common stock, securities convertible into common stock, or certain other issuances at a price below the then-current exercise price of the Warrants, which would result in an adjustment to the exercise price of the Warrants. In the event of a sale of the Company, each holder of Warrants has the right, exercisable at its option, to require the Company to purchase such holder’s Warrants at a price determined using a Black-Scholes option pricing model as described in the Warrants. After deducting closing costs and fees, the Company received net proceeds of approximately \$3.3 million.

(k) On February 7, 2013, the Company issued 833,334 units to a private investor for total proceeds of \$250. Each unit consisted of one share of Common Stock and a warrant to purchase one share of Common Stock at \$0.50 per share exercisable for 32 months.

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 plans.

Each option granted under the plans is exercisable until the earlier of ten years from the date of grant of the option or the expiration dates of the respective option plans. The 2004 and 2005 options plans will expire on November 25, 2014 and March 28, 2015, respectively. The exercise price of the options granted under the plans may not be less than the nominal value of the shares into which such options are exercised. The options vest primarily over three years. Any options that are canceled or forfeited before expiration become available for future grants.

In June 2008, June 2011 and in June 2012, the Company's stockholders approved increases in the number of shares of common stock available for issuance under these stock option plans by 5,000,000, 5,000,000 and 9,000,000 shares, respectively.

From 2005 through 2009, the Company granted its directors options to purchase 800,000 (in total) shares of Common Stock of the Company at an exercise price of \$0.15 per share. The options are fully vested and will expire after 10 years.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

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Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

(a) Options to employees and directors:

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

On October 23, 2007, the Company granted to its former Chief Executive Officer an option to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.87 per share. On November 5, 2008, the Company amended the exercise price to \$0.15 per share. The option is fully vested and expires after 10 years. The total compensation related to the option is \$737, which was recorded as general and administrative expense. The options were all exercised for \$150.

On June 29, 2009, the Company granted to its former Chief Executive Officer and director an option to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.067 per share. The option vests with respect to 1/3 of the shares subject to the option on each anniversary of the date of grant and expires after 10 years. Out of which 483,333 were exercised for \$32 and 516,667 were cancelled.

The total compensation related to the option is \$68, which is amortized over the vesting period as general and administrative expense. In February 2011, the former CEO resigned. On July 25, 2011, the Company signed a settlement agreement with the former CEO under which 483,333 shares out of the above grant became fully vested and exercisable through April 30, 2012. An additional \$30 was written as compensation in general and administrative expense.

In April 2012, the former CEO exercised the option to 483,333 shares of Common Stock for an exercise price of \$32.

On June 29, 2009, the Company granted to its former Chief Financial Officer an option to purchase 200,000 shares of Common Stock at an exercise price of \$0.067 per share. The option vested with respect to 1/3 of the shares subject to the option. In connection with the former Chief Financial Officer's resignation, 2/3 of the above shares were cancelled and the remaining 66,667 were exercised for \$4.

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 Prof. 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 Prof. Israeli to the Company under the Agreement, the Company agreed to grant equity 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 Prof. Israeli; and

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

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Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

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

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

Accordingly, the Company granted to Prof. Israeli in each of April 2010, June 2011, April 2012 and April 2013, an option to purchase 166,666 shares of Common Stock at an exercise price equal to \$0.00005 per share. The aggregated compensation related to such warrants recorded as of December 31, 2012 is \$126 was classified as general and administrative expense.

In addition, the Company granted Hadasit, in each of April 2010, June 2011, April 2012 and April 2013, a warrant to purchase 33,334 shares of Common Stock at an exercise price equal to \$0.00005 per share. The aggregated compensation related to the options recorded as of December 31, 2012 is \$24 was classified as research and development expense.

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

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

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

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

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

On August 1, 2012, the Company granted to three of its directors options to purchase an aggregate of 460,000 shares of Common Stock of the Company at \$0.15 per share. The total compensation related to the option was \$105, which is amortized over the vesting period as general and administrative expense.

On August 1, 2012, the Company granted to its former CEO, an option to purchase 70,000 shares of Common Stock of the Company at \$0.26 per share. The total compensation expense related to the option was \$16, which was amortized as general and administrative expense.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements**NOTE 6 - STOCK CAPITAL (Cont.):****B. Issuance of shares, warrants and options: (Cont.)****2. Share-based compensation to employees and to directors: (Cont.)****(a) Options to employees and directors: (Cont.)**

On January 24, 2013, the Company granted its former Chief Executive Officer an option to purchase 4,000,000 shares of Common Stock at an exercise price of \$0.29 per share. The option will vest 33% of the shares subject thereto on the first anniversary of the date of grant and the remainder shall vest over 36 consecutive months. On July 28, 2013, the former CEO informed the Company of his resignation from his position with the Company. In connection with the former CEO's resignation on July 28, 2013, the above options were cancelled and the total compensation expense related to the option that was recorded as general and administrative expense was cancelled.

On April 19, 2013, the Company granted to three of its directors options to purchase an aggregate of 460,000 shares of Common Stock of the Company at \$0.15 per share. The total compensation expense related to the option will be recorded as general and administrative expense.

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

	For the nine months ended September 30, 2013		
	Amount of options	Weighted average exercise price \$	Aggregate intrinsic value \$
Outstanding at beginning of period	4,751,665	0.1803	
Granted	4,626,666	0.2656	
Exercised	-	-	
Cancelled	(4,006,667)	0.2898	
Outstanding at end of period	5,371,664	0.1721	96,166
Vested and expected-to-vest at end of period	4,943,609	0.1764	67,341

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 September 30, 2013 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 September 30, 2013.

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Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

(b) Restricted shares to directors:

From May 2006 through April 2007, the Company issued to its directors 400,000 restricted shares of Common Stock (100,000 each). The restrictions on the shares have fully lapsed. The compensation related to the stocks issued amounted to \$198, which was amortized over the vesting period as general and administrative expenses. 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.

In May and June 2010, based on a board resolution dated June 29, 2009, the Company issued to three directors, three of its Scientific Advisory Board members and two of its Advisory Board members 800,000 restricted shares of Common Stock. The shares will vest in three annual and equal portions commencing with the grant date.

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

On June 27, 2011, the Company granted to two of its directors 476,666 (total) shares of Common Stock, which shares are fully vested as of March 31, 2013. Related compensation in the amount of \$229 will be recorded as general and administrative expense.

On August 22, 2011, the Company entered into an agreement with Chen Schor (the "Executive Director Agreement") pursuant to which the Company granted to Mr. Schor 923,374 shares of restricted Common Stock of the Company. The shares will vest over 3 years - 1/3 upon each anniversary of the Grant Date. In addition, the Company will pay \$15 per quarter to Mr. Schor for his services as an Executive Board Member.

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

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

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

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

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U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements**NOTE 6 - STOCK CAPITAL (Cont.):****B. Issuance of shares, warrants and options: (Cont.)****2. Share-based compensation to employees and to directors: (Cont.)****(a) Restricted shares to directors: (Cont.)**

In August 2012, the Company issued to two directors, four of its Scientific Advisory Board members and three of its Advisory Board members a total of 885,000 restricted shares of Common Stock. The shares will vest in 12 equal monthly portions over the service period. Related compensation in the amount of \$198 will be recorded as general and administrative expense.

On April 19, 2013, the Company issued to two of its directors and four of its Advisory Board members a total of 760,000 restricted shares of Common Stock. The shares will vest in 12 equal monthly portions until fully vested on the anniversary of grant. Related compensation expense in the amount of \$175 will be recorded as general and administrative expense.

3. Shares and warrants to investors and service providers:

The Company accounts for shares and warrant grants issued to non-employees using the guidance of ASC 505-50, "Equity-Based Payments to Non-Employees" (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.

a) Warrants to investors and service providers and investors:

Issuance date	Number of warrants issued	Exercised	Forfeited	Outstanding	Exercise Price \$	Warrants exercisable	Exercisable through
November-December 2004	14,600,845	14,396,010	204,835	-	0.00005 - 0.01	-	-
February-December 2005	3,058,471	173,000	2,548,308	337,163	0.15 - 2.5	337,163	Jun - Dec 2015
February-December 2006	1,686,355	727,696	478,659	480,000	0.005 - 1.5	480,000	Feb - May 2016
March 2007	14,803,300		1,003,300	13,800,000	0.15 - 0.47	13,800,000	May 2015 Oct 2017
April 2008	9,175,000			9,175,000	0.15 - 0.29	9,175,000	May 2015 Sep 2018
Apr-Oct 2009	4,937,500	100,000		4,837,500	0.067 - 0.294	4,837,500	May 2015 Oct 2019

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January 2010	1,250,000		1,250,000	-	0.5	-	-
February 2010	125,000	125,000		-	0.01	-	-
February 2010	3,000,000		3,000,000	-	0.5	-	-
February 2010	1,500,000			1,500,000	0.001	1,000,000	Feb 2020
April 2010	33,334			33,334	0.00005	33,334	Apr 2020
January 2011	4,537,500			4,537,500	0.29	4,537,500	May 2015
February 2011	641,026		641,026	-	0.39	-	-
February 2011	6,407,500	946,834	5,460,666	-	0.28	-	-
February 2011	12,815,000		12,815,000	-	0.5	-	-
April 2011	33,334			33,334	0.01	33,334	Apr 2021
April 2012	33,334			33,334	0.01	33,334	Apr 2022
July 2012	493,966			493,966	0.348	493,966	Jul 2014
July 2012	232,758			232,758	0.29	232,758	Jan 2015
July 2012	14,864,228			14,864,228	0.29	14,864,228	Jan 2015
Feb 2013	833,334			833,334	0.5	833,334	Oct 2015
April 2013	33,334			33,334	0.00005	13,889	April 2023
August 2013	17,647,058			17,647,058	0.25	17,647,058	August 2016
	112,742,177	16,468,540	27,401,794	68,871,843		68,352,398	

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Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

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

The fair value for the warrants to service providers was estimated on the measurement date determined using a Black-Scholes option pricing model, with the following weighted-average assumptions for the year ended December 31, 2010; weighted average volatility of 140%, risk free interest rates of 2.39%-3.14%, dividend yields of 0% and a weighted average life of the options of 5-5.5 and 1-9 years. There were no grants to service providers during 2012 and 2013 using Black-Scholes calculation.

(b) Shares:

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

On February 10, 2005, the Company signed an agreement with one of its service providers under which the Company issued to the service provider 100,000 restricted shares at a purchase price of \$0.00005 par value under the U.S. Stock Option and Incentive Plan of the Company. All restrictions on these shares have lapsed.

In March and in April 2005, the Company signed an agreement with four members of its Scientific Advisory Board under which the Company issued to the members of the Scientific Advisory Board 400,000 restricted shares at a purchase price of \$0.00005 par value under the U.S. Stock Option and Incentive Plan (100,000 each). All restrictions on these shares have lapsed.

Between the years 2004 through 2009, the Company issued to several services providers, in separate transactions, 3,045,508 shares of Common Stock in total. The total related compensation, in the amount of \$758, was recorded as general and administrative expense.

On March 5, 2007, the Company issued a \$150 Convertible Promissory Note to a third party. Interest on the note accrued at the rate of 8% per annum for the first year and 10% per annum after the first year. On January 27, 2010, the third party converted the entire accrued principle and interest outstanding under the note, amounting to \$189, into 1,016,109 shares of Common Stock.

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.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

(b) Shares: (Cont.)

On 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 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 was 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 4).

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 January 5, 2010, the Company issued to its public relations advisor 50,000 shares of the Company's Common Stock for six months service. The issuance of the shares is part of the agreement with the public relations advisor that entitles it to a monthly grant of 8,333 shares of the Company's Common Stock. Related compensation in the amount of \$12 was recorded as general and administrative expense.

On January 6, 2010, the Company issued to 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. Related compensation in the amount of \$16 was recorded as general and administrative expense.

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

On April 6, 2010, Prof. Melamed fully exercised his warrant to purchase 1,097,215 shares of the Company's Common Stock. The warrant was issued to him pursuant to the agreement with the Consultants effective as of November 4, 2004 (See Note 5a).

In May 2010, based on a board resolution dated June 29, 2009, the Company issued to one of its public relations advisors 100,000 restricted shares of Common Stock. The shares will vest in three annual and equal portions

commencing with the grant date.

BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements

NOTE 6 - STOCK CAPITAL (Cont.):

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

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

(b) Shares: (Cont.)

On December 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 relations services. Related compensation in the amount of \$40 was recorded as general and administrative expense.

On December 16, 2010, the Company granted to its two consultants 1,100,000 shares of the Company's Common Stock (See Note 5B).

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

On June 27, 2011, the Company granted to its legal advisor 180,000 shares of Common Stock for 2011 legal services. Related compensation in the amount of \$86 was recorded as general and administrative expense.

On June 27, 2011, the Company granted to its consultant 400,000 shares of the Company's Common Stock, for services rendered through December 31, 2009.

Related compensation in the amount of \$192 was recorded as research and development expense.

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

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

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

On February 4, 2013, the Company issued 126,111 shares of Common Stock to an investor, according to a settlement agreement, for the correction of the conversion rate of a \$200 convertible loan. The convertible loan was issued in 2006 and converted in 2010.

On March 11, 2013, the Company granted to its legal advisor 193,696 shares of Common Stock for 2013 legal services. As of June 30, 2013, related compensation expense in the amount of \$22 was recorded as general and

administrative expense.

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BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY

(A development stage company)

U.S. dollars in thousands

(Except share data)

Notes to Consolidated Financial Statements**NOTE 6 - STOCK CAPITAL (Cont.):****B. Issuance of shares, warrants and options: (Cont.)****3. Shares and warrants to service providers: (Cont.)****(b) Shares: (Cont.)**

On March 11, 2013, the Company granted to two of its service providers an aggregate of 400,000 shares of the Company's Common Stock. The shares are public relations services. As of September 30, 2013, related compensation expense in the amount of \$92 was recorded as general and administrative expense.

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

	Nine months ended September 30, 2013 Unaudited		Three months ended September 30, 2013 Unaudited		Period from September 22, 2000 (inception date) through September 30, 2013 Unaudited
	2012		2012		
Research and development	101	44	7	19	17,867
General and administrative	521	441	(71)	145	11,179
Financial expenses, net	-	-	-	-	248
Total stock-based compensation expense	622	485	(64)	164	29,294

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains numerous statements, descriptions, forecasts and projections, regarding Brainstorm Cell Therapeutics Inc. and its potential future business operations and performance. These statements, descriptions, forecasts and projections constitute "forward-looking statements," and as such involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance and achievements to be materially different from any results, levels of activity, performance and achievements expressed or implied by any such "forward-looking statements." Some of these are described under "Risk Factors" in this report and in our annual report on Form 10-K for the fiscal year ended December 31, 2012 as updated by our quarterly report on form 10-Q for the fiscal quarter ended June 30, 2013. In some cases you can identify such "forward-looking statements" by the use of words like "may," "will," "should," "could," "expects," "hopes," "anticipates," "believes," "intends," "plans," "estimates," "predicts," "likely," "potential," or "continue" or the negative of any of these terms or similar words. These "forward-looking statements" are based on certain assumptions that we have made as of the date hereof. To the extent these assumptions are not valid, the associated "forward-looking statements" and projections will not be correct. Although we believe that the expectations reflected in these "forward-looking statements" are reasonable, we cannot guarantee any future results, levels of activity, performance or achievements. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we may not inform you if they do and we undertake no obligation to do so. We caution investors that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, prospective investors should carefully consider the information set forth under the caption "Risk Factors" in addition to the other information set forth herein and elsewhere in our other public filings with the Securities and Exchange Commission.

Company Overview

We are a biotechnology company developing novel adult stem cell therapies for debilitating neurodegenerative disorders such as Amyotrophic Lateral Sclerosis (ALS, also known as Lou Gehrig's disease), Multiple Sclerosis (MS), and Parkinson's disease (PD). These diseases have limited treatment options and as such represent unmet medical needs.

We believe that NurOwn, our proprietary process for the propagation of Mesenchymal Stem Cells (MSC) and their differentiation into NeuroTrophic factor-(NTF) secreting cells (MSC-NTF), and their transplantation at, or near, the site of damage, offers the hope of more effectively treating neurodegenerative diseases.

Our approach is considered safe based on our use of autologous cells, which are free of the risk of rejection and tumor formation. It is also free of the controversy associated with the use of embryonic stem cells in some countries.

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

Our wholly-owned Israeli subsidiary, Brainstorm Cell Therapeutics Ltd. (the "Israeli Subsidiary"), holds rights to commercialize the technology, through a licensing agreement with Ramot at Tel Aviv University Ltd. ("Ramot"), the technology licensing company of Tel Aviv University, Israel.

On February 8, 2010, our Israeli Subsidiary entered into an agreement with Hadasit Medical Research Services and Development Ltd., a subsidiary of the Hadassah Medical Organization ("Hadassah"), pursuant to which Hadassah provides the Israeli Subsidiary with lab services.

On February 17, 2010, our Israeli Subsidiary entered into an agreement with Hadassah and Professor Dimitrios Karussis (the "Clinical Trial Agreement"). Under the Clinical Trial Agreement, Hadassah and our personnel agreed to conduct a clinical trial to evaluate the safety and tolerability of our NurOwn cells in patients with ALS, in accordance with a protocol developed jointly by us and Professor Karussis.

In February 2011, the U.S. Food and Drug Administration (FDA) granted Orphan Drug designation to NurOwn for the treatment of ALS.

In June 2011, we initiated a Phase I/II clinical trial for the treatment of ALS with NurOwn at the Hadassah University Medical Center in Jerusalem ("HUMC"), after receiving approval from the Israeli Ministry of Health (MoH).

In July 2011, we entered into a Memorandum of Understanding with Massachusetts General Hospital (MGH) and the University of Massachusetts Medical School ("UMass") in anticipation of applying for FDA approval to begin ALS human clinical trials in the United States. This memorandum of understanding expired on July 7, 2012. Pending submission of an Investigational New Drug ("IND") application to the FDA and subsequent approval, we are planning to enter into an agreement with these institutions in order to launch a Phase II clinical trial in late 2013, which we expect to complete during the first half of 2015.

In July 2012, together with Professor Karussis, we submitted an interim safety evaluation report to the Israeli MoH for the first 12 of 24 patients in the Phase I/II clinical trial. The report confirmed that our NurOwn therapy is safe, did not cause any adverse side effects, and some of the patients showed promising indications of clinical improvement.

In January 2013, the Israeli MoH approved acceleration to a Phase IIa combined treatment, dose-escalating trial, which we are currently conducting at HUMC. In this safety and preliminary efficacy trial, 12 early-stage ALS patients will receive both intramuscular and intrathecal injections of NurOwn cells in three cohorts with increasing doses. The patients will be followed for six months after transplantation.

In January 2013, we also announced that we had successfully completed a 12-week repeat dose toxicity study with our NurOwn cells in mice. These repeat doses were prepared from frozen cells, using a proprietary method developed by the Company. We believe that our cryopreservation, or freezing, method will enable long-term storage, and production of repeat patient doses of NurOwn without the need for additional bone marrow aspirations. We believe that the positive data from the toxicity study in mice will support our efforts to obtain approval for a future repeat dose clinical study in ALS patients. The study was conducted at Harlan Israel's laboratories, according to Good Laboratory Practice (GLP) standards of the FDA. The study protocol was approved by Israel's National Council for Animal Experimentation.

On February 21, 2013, Brainstorm Cell Therapeutics UK Ltd., a wholly-owned U.K. subsidiary of the Israeli Subsidiary (the "UK Subsidiary"), filed a request for Orphan Medicinal Product Designation by the European Medicine Agency (EMA) for our autologous bone marrow-derived mesenchymal stem cells secreting neurotropic factors.

In March 2013, principal investigator Professor Dimitrios Karussis of Hadassah presented some of the final data from the Phase I/II trial at the American Academy of Neurology Annual Meeting. The trial results analyzed to date confirmed the safety of the NurOwn treatment and also demonstrated initial signs of possible efficacy. There was a slower decline in overall clinical and respiratory function, as measured by the ALS Functional Rating Score (ALSFRS-R) and Forced Vital Capacity (FVC) score respectively, in the six patients that received an intrathecal

injection of the cells, in the six months following treatment as compared to the three months preceding treatment.

On March 14, 2013, we entered into a Memorandum of Understanding with the Mayo Clinic in Rochester, Minnesota, to participate as an additional clinical site in the Phase II ALS clinical trial planned for the first quarter of 2014. The team there will be led by Professor Anthony J. Windebank, Head of the Regenerative Neurobiology Laboratory in the Department of Neurology. This Memorandum of Understanding is due to expire on March 14, 2014.

On April 3, 2013, we entered into a manufacturing agreement with Dana-Farber Cancer Institute (Dana-Farber) under which Dana-Farber's Connell and O'Reilly Cell Manipulation Core Facility will produce NurOwn in its cGMP-compliant clean rooms for the MGH and UMass clinical sites during our upcoming Phase II ALS clinical trial in the United States.

In June 2013, we entered into a Memorandum of Understanding (MOU) with PRC Clinical, a Contract Research Organization (CRO) based in the San Francisco Bay Area, in anticipation of our planned Phase II multi-center ALS clinical trial in the United States.

On July 17, 2013, we received Orphan Medicinal Product Designation for our NurOwn for the treatment of ALS from the European Commission.

On August 1, 2013 we announced that we submitted a favorable safety report to the hospital Helsinki Committee (IRB) for the second group of patients in our ongoing Phase IIa ALS clinical trial at the Hadassah Medical Center in Jerusalem, Israel. We announced that the treatment was well tolerated and no serious adverse events were observed.

On September 27, 2013 we announced that we had completed treatment of the 12 patients in our ALS Phase IIa NurOwn dose-escalating clinical trial. The complete and final statistical analysis of the data is expected to be available after 6 months of follow up with the patients. We have been informed that one patient in the study expired due to a medical condition unrelated to the Clinical Trial. We also announced that for logistical reasons, our upcoming multi-center Phase II clinical trial in the US is expected to begin, subject to FDA approval, in the first quarter of 2014, instead of late 2013 as we reported previously.

Our Proprietary Technology

Our NurOwn technology is based on a novel differentiation protocol that differentiates the bone marrow-derived mesenchymal stem cells into neuron-supporting cells, MSC-NTF cells, capable of releasing several neurotrophic factors, including Glial-derived neurotrophic factor (GDNF) and Brain-derived neurotrophic factor (BDNF), both of which are critical for the growth, survival, and differentiation of developing neurons.

Our approach to treatment of neurodegenerative diseases with autologous adult stem cells includes a multi-step process beginning with harvesting of undifferentiated stem cells from the patient's own bone marrow, and concluding with transplantation of differentiated, neurotrophic factor-secreting mesenchymal stem cells (MSC-NTF) into the same patient intrathecally and/or intramuscularly. Intrathecal (injection into the cerebrospinal fluid) transplantation consists of injection with a standard lumbar puncture; there is no need for a laminectomy - an invasive, orthopedic spine operation to remove a portion of the vertebral bone, as required by other technologies. Intramuscular (injection directly into muscle) transplantation is performed via a standard injection procedure as well.

Our proprietary, optimized processes for induction of differentiation of human bone marrow derived mesenchymal stem cells into differentiated cells that produce NTF (MSC-NTF) are conducted in full compliance with current Good Manufacturing Practices (cGMP).

Our proprietary technology is licensed to and developed by our Israeli Subsidiary.

The NurOwn Transplantation Process

Bone marrow aspiration from patient;

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Isolation and expansion of the mesenchymal stem cells;
Differentiation of the expanded stem cells into neurotrophic-factor secreting (MSC-NTF) cells; and
Autologous transplantation into the patient's spinal cord or muscle tissue.

Differentiation before Transplantation

The ability to induce differentiation of autologous adult mesenchymal stem cells into MSC-NTF cells *before* transplantation is unique to NurOwn, making it the first-of-its-kind for treating neurodegenerative diseases.

The specialized cells secrete neurotrophic factors for:

Protection of existing motor neurons;
Promotion of motor neuron growth; and
Re-establishment of nerve-muscle interaction.

Autologous (Self-transplantation)

The NurOwn approach is autologous, or self-transplanted, using the patient's own stem cells. In autologous transplantation there is no risk of rejection and no need for treatment with immunosuppressive agents, which can cause severe and/or long-term side effects. In addition, it is free of controversy associated with the use of embryonic stem cells in some countries.

Transplantation site and method

Clinical Indication I: ALS (current) Based on the approval of the Israeli MoH, we are currently conducting a Phase IIa dose-escalating trial to evaluate safety and preliminary efficacy of NurOwn in ALS patients. Pending submission of an IND application to the FDA and subsequent approval, we are planning to launch a Phase II clinical trial in the USA, subject to FDA approval, in the first quarter of 2014, and we expect to complete the trial during the first half of 2015. If this trial is successful, we intend to conduct further Phase II and Phase III clinical trials of NurOwn.

Clinical Indication II: MS (future) Based on positive proof-of-concept results obtained at Tel Aviv University with MSC-NTF cells for MS, we are currently conducting pre-clinical studies for this disease.

Proposed Reverse Stock Split

On February 28, 2013, our Board of Directors approved, subject to stockholder approval, a resolution authorizing our Board of Directors to effect a reverse stock split of our common stock by a ratio of between 1-for-10 and 1-for-20, inclusive, with our Board of Directors retaining the discretion as to whether to implement the reverse stock split and which exchange ratio to implement. On April 18, 2013, our stockholders approved this resolution. In connection with our August 16, 2013 offering pursuant to the Company's registration statement on Form S-1 (File No. 333-186516) (the "Offering"), we have agreed that for a period of 90 days from the date of the Underwriting Agreement executed in connection with the Offering, we will not effect or make any public announcement that we intend to effect any reverse split, combination or other recapitalization of our Common Stock which would reduce the outstanding shares of Common Stock without the prior written consent of the Underwriters in the Offering.

Principal Executive Officer

On July 28, 2013, Alon Natanson, Chief Executive Officer of the Company, informed us of his resignation from his position with the Company effective 90 days after the notice. Mr. Natanson continued to hold the title of Chief

Executive Officer of the Company until October 28, 2013, the end of the 90 day notice period required by Mr. Natanson's employment agreement. The Company is currently searching for a permanent Chief Executive Officer to replace Mr. Natanson.

On August 1, 2013, the Company appointed Chaim Lebovits, the President of the Company, as its principal executive officer, and to assume the duties and responsibilities of the Chief Executive Officer on an interim basis while we search for a new Chief Executive Officer.

Underwritten Public Offering

On August 16, 2013, the Company closed a public offering of an aggregate of 23,529,411 units at a public offering price of \$0.17 per unit, with each unit consisting of one share of our common stock, par value \$0.00005 per share ("Common Stock"), and 0.75 of a warrant to purchase one share of our Common Stock at an exercise price of \$0.25 per whole share of Common Stock (the "Warrants"). The Warrants are immediately exercisable and will expire three years from the issuance date. No units were issued, however, and purchasers received only shares of Common Stock and Warrants. The Common Stock and the Warrants may be transferred separately immediately upon issuances. We do not intend to list the Warrants on any securities exchange or other trading market and we do not expect that a public trading market will develop for the Warrants. The total expenses of this Offering were approximately \$220,000. We have also reimbursed the underwriters for certain expenses. The net proceeds to the Company were approximately \$3.5 million, assuming no exercise of the Warrants and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us associated with the Offering.

The Warrants issued in the Offering are exercisable beginning on August 16, 2013 and will expire August 16, 2016. The exercise price of the Warrants is \$0.25 per whole share of Common Stock. The exercise price and number of shares of Common Stock issuable upon exercise of the Warrants is subject to adjustment in the event of any stock split, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction, among other events as described in the Warrants. The Warrants also include, subject to certain exceptions, full ratchet anti-dilution protection in the event of the issuance of any common stock, securities convertible into common stock, or certain other issuances at a price below the then-current exercise price of the Warrants, which would result in an adjustment to the exercise price of the Warrants. In the event of a sale of the Company, each holder of Warrants has the right, exercisable at its option, to require the Company to purchase such holder's Warrants at a price determined using a Black-Scholes option pricing model as described in the Warrants.

The Offering was made pursuant to the Company's registration statement on Form S-1 (File No. 333-186516), which was initially filed with the Securities and Exchange Commission (the "Commission") on February 8, 2013, subsequently amended and declared effective by the Commission on August 12, 2013.

Corporate Information

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at 605 Third Avenue, 34th Floor, New York, New York 10158, and our telephone number is (646) 666-3188. We maintain an Internet website at <http://www.brainstorm-cell.com>. The information on our website is not incorporated into this report.

Results of Operations

The Company has been a development stage company since its inception. For the period from inception (September 22, 2000) until September 30, 2013, the Company has not earned any revenues from operations. The Company does not expect to earn revenues from operations until 2017. In addition, the Company has incurred operating costs and other expenses of approximately \$ 1,076,000 during the three months ended September 30, 2013, and approximately \$ 48,582,000 for the period from inception (September 22, 2000) until September 30, 2013. Operating expenses incurred since inception were approximately \$ 20,325,000 for general and administrative expenses and \$ 28,257,000 for research and development costs.

Research and Development, net:

Research and development expenses, net for the three months ended September 30, 2013 and 2012 were \$ 804,000 and \$ 732,000, respectively. In addition, the Company's grant from The Office of the Chief Scientist increased by \$ 26,000 to \$ 70,000 for the three months ended September 30, 2013 from \$ 44,000 for the three months ended September 30, 2012.

The increase in research and development expenses for the three months ended September 30, 2013 is primarily due to: (i) an increase of \$ 128,000 in costs associated with the clinical trials mainly in the US, for an aggregate amount of \$ 482,000 for the three months ended September 30, 2013, compared to \$ 354,000 for the three months ended September 30, 2012; (ii) an increase of \$ 95,000 in payroll costs due to recruitment of additional employees to conduct the clinical trials. This increase was partially offset by (i) an increase of \$ 26,000 in CSO grants from \$ 44,000 in the three months ended September 30, 2012 to \$ 70,000 in the three months ended September 30, 2013; (ii) by a decrease of \$ 125,000 for consulting fees, rent, travel, stock-based compensation and other expenses.

General and Administrative:

General and administrative expenses for the three months ended September 30, 2013 and 2012 were \$ 272,000 and \$ 440,000, respectively. The decrease in general and administrative expenses for the three month period ended September 30, 2013 from the three month period ended September 30, 2012 is primarily due to (i) decrease of \$ 216,000 in stock-based compensation expenses, from \$ 145,000 in the three months ended September 30, 2012 to \$ (71,000) in the three months ended September 30, 2013; (ii) decrease of \$ 18,000 in payroll and public relations expenses, from \$ 189,000 in the three months ended September 30, 2012 to \$ 171,000 in the three months ended September 30, 2013. This decrease was partially offset by an increase of \$ 66,000 in consulting fees, travel, rent and other costs from \$ 105,000 in the three months ended September 30, 2012 to \$ 171,000 in the three months ended September 30, 2013.

Financial Expenses:

Financial expense for the three months ended September 30, 2013 was \$ 5,000, compared to a financial income of \$ 22,000 for the three months ended September 30, 2012.

The financial expense for the three months ended September 30, 2013 is mainly due to conversion exchange rates and bank charges that were offset by an interest receivable from a bank deposit (no such income was received in the three months ended September 30, 2012).

Net Loss:

Net loss for the three months ended on September 30, 2013 was \$ 1,082,000, as compared to a net loss of \$ 1,150,000 for the three months ended September 30, 2012. Net loss per share for the three months ended September 30, 2013

and September 30, 2012 was \$ 0.01.

The weighted average number of shares of Common Stock used in computing basic and diluted net loss per share for the three months ended September 30, 2013 was 164,223,127, compared to 145,407,840 for the three months ended September 30, 2012.

The increase in the weighted average number of shares of Common Stock used in computing basic and diluted net loss per share for the three months ended September 30, 2013 was due to (i) the issuance of shares of Common Stock in a public offering in August 2013, (ii) the exercise of options and warrants, and (iii) the issuance of shares to service providers and private investors.

Liquidity and Capital Resources

The Company has financed its operations since inception primarily through public and private sales of its Common Stock and warrants and the issuance of convertible promissory notes. At September 30, 2013, the Company had \$5,672,000 in total current assets and \$1,386,000 in total current liabilities.

Net cash used in operating activities was \$ 713,000 for the three months ended September 30, 2013. Cash used for operating activities was primarily attributed to cost of clinical trials, rent of clean rooms and materials for clinical trials, payroll costs, rent, outside legal fee expenses and public relations expenses.

Net cash used in investing activities was \$ 3,039,000 for the three months ended September 30, 2013.

Net cash provided by financing activities was \$3,326,000 for the three months ended September 30, 2013.

On July 17, 2012, the Company raised approximately \$5.7 million through a public offering (the "2012 Public Offering") of its Common Stock. The Company issued a total of 19,818,972 shares of its Common Stock at \$0.29 per share and warrants to purchase 0.75 shares of Common Stock for every share purchased in the 2012 Public Offering, at an exercise price of \$0.29 per share. The warrants are exercisable until the 30 month anniversary of the date of issuance. After deducting closing costs and fees, the Company received net proceeds of approximately \$5 million.

On August 16, 2013, the Company raised approximately \$4.0 million through a public offering (the "2013 Public Offering") of its Common Stock. The Company issued a total of 23,529,411 units at a public offering price of \$0.17 per unit, with each unit consisting of one share of Common Stock, and 0.75 of a warrant to purchase one share of our Common Stock at an exercise price of \$0.25 per whole share of Common Stock. The warrants are exercisable until the three year anniversary of the date of issuance. After deducting closing costs and fees, the Company received net proceeds of approximately \$3.3 million.

The Company's other material cash needs for the next 12 months will include payments of (i) initiation and on-going costs of the clinical trial in the US and Israel; (ii) employee salaries; (iii) patents; (iv) construction fees for facilities to be used in the Company's research and development and (v) fees to Company consultants and legal advisors.

Company's operations are capital intensive and will require substantial capital raisings. If the Company is not able to raise substantial additional capital, it may not be able to continue to function as a going concern and may have to cease operations. Even if the Company obtains funding sufficient to fund its operations in the short term, it would still be required to raise a substantial amount of capital in the future in order to reach profitability and to complete the commercialization of the Company's products. The Company's ability to fund these future capital requirements will depend on many factors, including the following:

- our ability to obtain funding from third parties, including any future collaborative partners;
- the scope, rate of progress and cost of our clinical trials and other research and development programs;
 - the time and costs required to gain regulatory approvals;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the costs of filing, prosecuting, defending and enforcing patents, patent applications, patent claims, trademarks and other intellectual property rights;

the effect of competition and market developments; and
future pre-clinical and clinical trial results.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenue and expenses during the reporting periods. We continually evaluate our judgments, estimates and assumptions. We base our estimates on the terms of underlying agreements, our expected course of development, historical experience and other factors we believe are reasonable based on the circumstances, the results of which form our management's basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

There were no significant changes to our critical accounting policies during the quarter ended September 30, 2013. For information about critical accounting policies, see the discussion of critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Subsequent Events

None

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This information has been omitted as the Company qualifies as a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our Principal Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes In Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business. We currently are not a party to any material legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on our business, results of operation or financial condition.

Item 1A. Risk Factors.

There have not been any material changes from the risk factors previously disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated by our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2013. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated by our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2013, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated by our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2013, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The following Risk Factor has been restated from the Annual Report on Form 10-K, as updated by our quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2013, to correctly indicate that the Offering was completed:

We need to raise additional capital. If we are unable to raise additional capital on favorable terms and in a timely manner, we will not be able to execute our business plan and we could be forced to restrict or cease our operations.

We will need to raise additional funds to meet our anticipated expenses so that we can execute our business plan. We expect to incur substantial and increasing net losses for the foreseeable future as we increase our spending to execute our development programs. Our auditors have expressed in their audit report that there is substantial doubt regarding our ability to continue as a going concern.

The amount of financing required will depend on many factors including our financial requirements to fund our research and clinical trials, and our ability to secure partnerships and achieve partnership milestones as well as to fund other working capital requirements. Our ability to access the capital markets or to enlist partners is mainly dependent on the progress of our research and development and regulatory approval of our products.

We expect that the net proceeds of the August 16, 2013 Offering will be insufficient to meet our obligations in the upcoming 12 months, as we commence and pursue clinical trials in the United States, and that additional capital will be required in order to finance the Company's planned operations or the Company will reduce its costs, including curtailing its current plan to accelerate pursuit of U.S. clinical trials, in order to continue operating for the next 12 months.

Assuming we raise additional funds through the issuance of equity, equity-related or debt securities, these securities may have rights, preferences or privileges (including registrations rights) senior to those of the rights of our common stock and our stockholders will experience additional dilution.

We are currently searching for a new Chief Executive Officer. If we were to unable to hire and retain an experienced and qualified CEO, we may experience difficulty executing our business strategy.

Our future success depends in a large part upon the continued service of key members of our senior management team. Alon Natanson, our Chief Executive Officer, has announced his resignation from the Company effective October 26, 2013. Chaim Lebovits, our President, has assumed the duties and responsibilities of the Chief Executive Officer on an interim basis while we search for a new Chief Executive Officer. Identifying and hiring an experienced and qualified Chief Executive Officer may be difficult for a small, development stage, biotech company such as ours. In particular, we expect that the CEO we hire will be critical to the overall management of the Company as well as the development of our technology, our culture and our strategic direction. If we are unable to hire and retain an experienced CEO or if we lose any other key members of our management or personnel we may not be able to execute our business strategy.

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

None.

Item 5. Other Information.

During the quarter ended September 30, 2013, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

Item 6. Exhibits.

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with or incorporated by reference in this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRAINSTORM CELL THERAPEUTICS INC.

November 14, 2013

By: /s/ Chaim Lebovits
Name: Chaim Lebovits
Title: President (Principal Executive Officer)

November 14, 2013

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

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
4.1	Form of Warrant, incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed August 13, 2013 (File No. 000-54365).
10.1	Underwriting Agreement dated as of August 13, 2013 by and between Brainstorm Cell Therapeutics Inc., Roth Capital Partners, LLC and Maxim Group LLC, incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed August 13, 2013 (File No. 000-54365).
10.2	Amendment to Employment Agreement, dated September 5, 2011, by and between Brainstorm Cell Therapeutics Ltd. and Adrian Harel, incorporated by reference to Exhibit 10.39 of the amendment to the Company's Registration Statement on Form S-1 filed on July 9, 2013 (File No. 333-186516).
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