BRAINSTORM CELL THERAPEUTICS INC
Form 10QSB
November 14, 2006

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2006

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

COMMISSION FILE NUMBER: 333-61610

BRAINSTORM CELL THERAPEUTICS INC.
(Exact name of small business issuer as specified in its charter)

WASHINGTON	91-2061053
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

110 EAST 59th STREET
NEW YORK, NY 10022
(Address of principal executive offices)

(212) 557-9000
(Issuer's telephone number)

Former fiscal year: March 31
(Former name, former address and former fiscal year, if changed since last report)

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

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

As of November 7, 2006, the number of shares outstanding of the Registrant's Common Stock, $0.00005 par value per share, was 24,201,812.

Transitional Small Business Disclosure Format (Check one): Yes |_| No |X|.

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

SPECIAL NOTE

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This 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 "Certain Risk Factors That May Affect Future Results" in this report. 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 "Certain Risk Factors That May Affect Future Results" in addition to the other information set forth herein and elsewhere in our other public filings with the Securities and Exchange Commission.

Item 1. Financial Statements.

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2006

IN U.S. DOLLARS

UNAUDITED

INDEX

- - - - - - - - - - - - - - - - - - -

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

CONSOLIDATED BALANCE SHEETS

In U.S. dollars (except stock data)

	September 30, 2006
	Unaudited
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	52,991
Restricted cash	31,381
Accounts receivable and prepaid expenses	62,585
Total current assets	146,957
LONG-TERM INVESTMENTS:	
Prepaid expenses	7,662
Severance pay fund	29,950
	37,612

PROPERTY AND EQUIPMENT, NET	479,719
OTHER ASSETS	61,206
Total assets	725,494
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
CURRENT LIABILITIES:	
Trade payables	246,580
Other accounts payable and accrued expenses	722,120
Short-term convertible loans (Note 5)	945,693
Short-term loan (Note 6)	197,855
Total current liabilities	2,112,248
OPTIONS AND WARRANTS (Note 5b)	--
ACCRUED SEVERANCE PAY	34,471
Total liabilities	2,146,719
STOCKHOLDERS' DEFICIENCY:	
Stock capital:	
Common stock of $ 0.00005 par value - Authorized: 200,000,000 shares at September 30, 2006 and March 31, 2006; Issued and outstanding: 23,729,961 and 22,854,587 shares at September 30, 2006 and March 31, 2006, respectively	1,187
Preferred stock of $ 0.00005 par value - Authorized: 40,000,000 shares at September 30, 2006 and March 31, 2006; none issued	--
Additional paid-in capital	22,794,443
Deferred stock-based compensation	--
Deficit accumulated during the development stage	(24,216,855)
Total stockholders' deficiency	(1,421,225)
Total liabilities and stockholders' deficiency	725,494

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

In U.S. dollars (except stock data)

	Six months ended September 30,		Three months ended September 30,		Year Mar
	2006	2005	2006	2005	2
	Unaudited				
Operating costs and expenses:					
Research and development	510,025	491,932	267,095	311,295	9
Research and development expenses (income) related to shares, warrants and options granted to employees and service providers	(339,482)	22,911	1,629	13,056	(1
General and administrative	548,747	471,533	304,106	236,825	8
General and administrative expenses related to shares, warrants and options granted to employees and service providers	913,811	775,371	316,678	467,771	1,6
Total operating costs and expenses	1,633,101	1,761,747	889,508	1,028,947	3,3
Financial income (expenses), net	(246,948)	(1,788)	(149,805)	591	
	(1,880,049)	(1,763,535)	(1,039,313)	(1,028,356)	(3,2
Income taxes	17,575	14,378	8,891	9,769	
Loss from continuing operations	(1,897,624)	(1,777,913)	(1,048,204)	(1,038,125)	(3,3
Net loss from discontinued operations	--	--	--	--	
Net loss	(1,897,624)	(1,777,913)	(1,048,204)	(1,038,125)	(3,3
Basic and diluted net loss per share from continuing operations	(0.08)	(0.08)	(0.04)	(0.05)	
Weighted average number of shares used in computing basic and diluted net loss per share	23,306,302	21,529,430	23,577,787	21,917,455	22,0

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)

In U.S. dollars (except stock data)

	Common stock		Additional paid-in capital	Deferred stock-based compensation
	Number	Amount		
Balance as of September 22, 2000 (date of inception)	--	--	--	--
Shares issued on September 22, 2000 for cash at $ 0.00188 per share	8,500,000	850	15,150	--
Stock issued on March 31, 2001 for cash at $ 0.0375 per share	1,600,000	160	59,840	--
Contribution of capital	--	--	7,500	--
Net loss	--	--	--	--
Balance as of March 31, 2001	10,100,000	1,010	82,490	--
Contribution of capital	--	--	11,250	--
Net loss	--	--	--	--
Balance as of March 31, 2002	10,100,000	1,010	93,740	--
Contribution of capital	--	--	15,000	--
Net loss	--	--	--	--
Balance as of March 31, 2003	10,100,000	1,010	108,740	--
2 for 1 stock split	10,100,000	--	--	--
Stock issued on August 31, 2003 to purchase mineral option at $ 0.065 per share	100,000	5	6,495	--
Cancellation of shares granted to Company's President	(10,062,000)	(503)	503	--
Contribution of capital	--	--	15,000	--
Net loss	--	--	--	--
Balance as of March 31, 2004	10,238,000	512	130,738	--
Shares issued on June 24, 2004 for private placement at $ 0.01 per stock, net of $ 25,000 issuance expenses	8,510,000	426	59,749	--

Contribution capital	--	--	7,500	--
Shares issued in 2004 for private placement at $ 0.75 per unit	1,894,808	95	1,418,042	--
Cancellation of shares granted to service providers	(1,800,000)	(90)	90	--
Deferred stock-based compensation related to options granted to employees	--	--	5,978,759	(5,978,759)
Amortization of deferred stock-based compensation related to shares and options granted to employees	--	--	--	584,024
Compensation related to shares and options granted to service providers	2,025,000	101	17,505,747	--
Net loss	--	--	--	--
Balance as of March 31, 2005	20,867,808	1,044	25,100,625	(5,394,735)

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)

In U.S. dollars (except stock data)

	Common stock		Additional paid-in capital	Deferre stock-bas compensat
	Number	Amount		
Balance as of March 31, 2005	20,867,808	1,044	25,100,625	(5,394,7
Stock issued on May 12, 2005 for private placement at $ 0.8 per share	186,875	9	149,491	
Stock issued on July 27, 2005 for private placement at $ 0.6 per share	165,000	8	98,992	
Stock issued on September 30, 2005 for private placement at $0.8 per share	312,500	16	224,984	
Stock issued on December 17, 2005 for private placement at $0.8 per share	187,500	10	134,990	
Forfeiture of options granted to employees	--	--	(3,363,296)	3,363,2
Deferred stock-based compensation related to shares and options granted to directors and employees	200,000	10	486,490	(486,5

Amortization of deferred stock-based compensation related to options and shares granted to employees and directors	--	--	51,047	1,122,5
Stock-based compensation related to options and shares granted to service providers	934,904	47	662,069	
Reclassification due to application of EITF 00-19			(7,906,289)	
Beneficial conversion feature related to a convertible bridge loan	--	--	163,744	
Net loss	--	--	--	
Balance as of March 31, 2006	22,854,587	1,144	15,802,847	(1,395,4
Elimination of deferred stock compensation due to implementation of FAS 123R	--	--	(1,395,439)	1,395,4
Stock-based compensation related to shares and options granted to directors and employees	200,000	10	559,010	
Reclassification due to application of EITF 00-19 (Note 5c)	--	--	7,190,829	
Stock-based compensation related to options and shares granted to service providers	675,374	33	437,196	
Beneficial conversion feature related to convertible bridge loans (Note 4a and b)	--	--	200,000	
Net loss	--	--	--	
Balance as of September 30, 2006 (unaudited)	23,729,961	1,187	22,794,443	

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

In U.S. dollars

Six months ended

	September 30,		Year end March 3
	2006	2005	2006
	Unaudited		
Cash flows from operating activities:			
Net loss	(1,897,624)	(1,777,913)	(3,316,7
Less - loss for the period from discontinued operations	--	--	
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	95,894	23,577	72,3
Accrued severance pay, net	(949)	--	5,4
Accrued interest on loans	58,324	--	13,2
Amortization of discount on short-term loans	189,373	--	50,7
Change in fair value of options and warrants	(488,180)	--	(306,6
Expenses related to shares and options granted to service providers	437,229	237,747	631,2
Stock-based compensation related to options granted to employees	559,020	586,935	1,173,5
Decrease in accounts receivable and prepaid expenses	(17,134)	(40,440)	(37,5
Increase in trade payables	45,956	227,317	162,7
Increase in other accounts payable and accrued expenses	351,675	189,692	239,2
Net cash used in continuing operating activities	(666,416)	(472,205)	(1,237,3
Net cash used in discontinued operating activities	--	--	
Total net cash used in operating activities	(666,416)	(472,205)	(1,237,3
Cash flows from investing activities:			
Purchase of property and equipment	(107,775)	(228,367)	(209,6
Restricted cash	(2,422)	1,525	2,1
Investment in lease deposit	(595)	--	(2,4
Net cash used in continuing investing activities	(110,812)	(226,842)	(209,9
Net cash used in discontinued investing activities	--	--	
Total net cash used in investing activities	(110,812)	(226,842)	(209,9
Cash flows from financing activities:			
Proceeds from issuance of Common stock and warrants, net	--	248,500	608,5
Receipts on account of shares	--	225,000	602,5
Proceeds from loans	540,000	--	1,211,0
Net cash provided by continuing financing activities	540,000	473,500	
Net cash provided by discontinued financing activities	--	--	
Total net cash provided by financing activities	540,000	473,500	1,211,0
Increase (decrease) in cash and cash equivalents	(237,228)	(225,547)	(236,3
Cash and cash equivalents at the beginning of the period	290,219	526,519	526,5

Cash and cash equivalents at end of the period	52,991	300,972	290,2
Non-cash financing activities:			
Non-cash financing activities from discontinued operations	--	--	30,9
Non-cash investing activities from continued operations	--	26,400	
Cash paid during the period for:			
Taxes	--	--	
Interest	1	--	

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

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 September 22, 2000, the Company acquired the right to market and sell a digital data recorder product in certain states in the U.S.

c. On July 8, 2004, the Company entered into a licensing agreement with Ramot of Tel Aviv University Ltd. ("Ramot"), an Israeli corporation, to acquire certain stem cell technology. Subsequent to this agreement, the Company decided to change its line of business and to focus on the development of novel cell therapies for neurodegenerative diseases, particularly, Parkinson's disease, based on the acquired technology and research to be conducted and funded by the Company.

Following the licensing agreement dated July 8, 2004, the management of the Company decided to abandon all activities related to the sale of the digital data recorder product. The discontinuation of this activity was accounted for under the provision of SFAS 144, "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"). On March 14, 2005, the Company signed an agreement with its subsidiary effective as of November, 2004, according to which the subsidiary will provide research, development and other services to the Company. In return, the subsidiary will be entitled to receive reimbursement of expenses incurred by it in the process of performing the research and development services plus 10% of such reimbursement amounts.

e. As of September 30, 2006, the Company had accumulated a deficit of $ 24,216,855 and working capital deficiency of $ 1,965,291, respectively, and incurred net loss of $ 1,897,624 and negative cash flows from operating activities in the amount of $ 666,416 for the six months ended September 30, 2006. In addition, the Company has not generated any revenues yet. The Company's ability to continue to operate as a going concern is dependent upon additional financial support.

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.

The Company intends to raise additional capital to fund its operations. In the event the Company is unable to successfully raise capital and generate revenues, it is unlikely that the Company will have sufficient cash flows and liquidity to finance its business operations as currently contemplated. Accordingly, the Company will likely reduce general and administrative expenses and cease or delay the development project until it is able to obtain sufficient financing. There can be no assurance that sufficient revenues will be generated and that additional funds will be available on terms acceptable to the Company, or at all.

Certain shareholders of the Company are obligated to invest in the Company up to $3 million if the Company does not succeed to raise capital from other sources. The investment will be in a manner of an equity investment or by the issuance of a convertible loan. If the investment is made through a convertible loan, the loan maturity date will not be before January 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 1:- GENERAL (Cont.)

f. Risk factors:

The Company depends on Ramot to conduct its research and development activities. As discussed in Note 4, the Company is currently in negotiations with Ramot for additional deferral of the payment due to it pursuant to the research and development agreement. In case a deferral of payment will not be obtained, the Company will be in breach of the agreement and Ramot may terminate the research and license agreement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual financial statements of the Company as of March 31, 2006, are applied consistently in these financial statements.

b. Accounting for stock-based compensation:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options under the Company's stock plans based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no equity-based compensation expense was recognized in the Company's results of operations because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock on the date of grant.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognized in the six month period ended September 30, 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet

vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). As required by the modified prospective method results for prior periods have not been restated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognized compensation expenses for the value of these awards, which has graded vesting, based on the accelerated attribution method over the requisite service period of each award, net of estimated forfeitures. Estimated forfeitures were based on actual historical pre-vesting forfeitures.

As a result of adopting SFAS 123(R) on April 1, 2006, the Company's loss before income taxes and net loss for the six months ended September 30, 2006, are $ 162,713 over than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted loss per share for the six months period ended September 30, 2006, would have been $ 0.09, had the Company not adopted SFAS 123(R), compared to reported basic and diluted loss per share of $ 0.08.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility and the expected option term (the amount of time from the grant date until the options are exercised or expire). Expected volatility was calculated based upon actual historical stock price movements over the period ending September 30, 2006, equal to the expected option term. The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined based on historical experience of similar options, giving consideration to the contractual terms of the stock options. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term.

The following table illustrates the effect on net loss and net loss per share, assuming that the Company had applied the fair value recognition provision of SFAS No.

In U.S. dollars (except stock data)

123 on its stock-based employee compensation. For purposes of this pro-forma disclosure, the value of the options is estimated using a Black-Scholes option pricing formula and amortized to expense over the options vesting period. The assumptions used in the calculation are as follows:

Employee stock options	Six months ended September 30, 2006	Year ended March 31, 2006
	Unaudited	
Expected volatility	112%	110%
Risk-free interest	4.56%	4.46%
Dividend yield	0%	0%
Expected life of up to (years)	7.47	7.53

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table illustrates the effect on net loss and net loss per share, assuming that the Company had applied the fair value recognition provision of SFAS No. 123 on its stock-based employee compensation.

	Year ended March 31, 2006
Net loss as reported	(3,316,749)
Add: stock based employee compensation intrinsic value	1,122,500
Deduct: stock-based compensation expense determined under fair value method	(1,330,447)
Pro forma net loss	(3,524,696)
Basic and diluted net loss per share, as reported	(0.15)
Basic and diluted net loss per share, pro forma	(0.16)

NOTE 3:- UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in a condensed format and include the consolidated financial operations of the Company and its fully owned subsidiary as of September 30, 2006 and for the six months then ended, in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended March 31, 2007.

NOTE 4:- RESEARCH AND LICENSE AGREEMENT

a. The Company's total current obligation to Ramot as of September 30, 2006 is in the amount of $ 272,127. The Company is negotiating with Ramot to postpone the payment. (For complete information regarding the research and license agreement, see Note 3 to the financial statements as of March 31, 2006).

b. In July 2006, the Company signed a non binding letter of intends (LOI) to conduct pre clinical trials with a third party. Based on the LOI, the project budget is estimated at about Euro 100,000 and the parties will share the cost. In case of future sales of products derived from the trial, the third party will be entitled up to 3% from the net price in certain countries.

NOTE 5:- SHORT-TERM CONVERTIBLE LOANS

a. On June 5, 2006, the Company issued a $500,000 Convertible Promissory Note ("the Note") to a third party under the same terms as the convertible loan dated February 7, 2006. (See also Note 8 to the financial statements as of March 31, 2006).

The Company agreed to pay a finder's fee of 10% of the loan. The finder's fee totaling $50,000 was charged to deferred charges and amortized over the Note period (12

months).

According to FASB 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" the short-term convertible loan was classified as a liability at the full monetary value of the obligation. Such amount is predominantly based on a fixed monetary amount known at inception which amounted to $666,667 (against a discount in the amount of $ 166,667).

The balance as of September 30, 2006 is comprised as follows:

Loan	666,667
Discount	(113,242)
Accrued interest	16,027
	569,452

On June 14, 2006, the loan was amended (see also b below). According to the amendment, the Company limited the number of stocks to be issued upon conversion of such loan amount of 50,000,000 shares of Common stock.

b. On September 14, 2006, the Company issued a $ 100,000 Convertible Promissory Note ("the Note") to a third party under the same terms as the convertible loan dated February 7, 2006. (See also Note 8 to the financial statements as of March 31, 2006).

The Company agreed to pay a finder's fee of 10% of the loan. The finder's fee totaling $10,000 was charged to deferred charges and was amortized over the Note period (12 months).

According to FASB 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" the short-term convertible loan was classified as a liability at the full monetary value of the obligation. Such amount is predominantly based on a fixed monetary amount known at inception which amounted to $133,333 (against a discount in the amount of $ 33,333).

The balance as of September 30, 2006 is comprised as follows:

Loan	133,333
Discount	(31,872)
Accrued interest	438
	101,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 5:- SHORT-TERM CONVERTIBLE LOANS (Cont.)

c. On June 14, 2006, the Company signed amendments to the convertible loan agreements dated February 7, 2006 (see also Note 8a to the financial statements as of March 31, 2006) and June 5, 2006 (see 5a above), according to which the Company limited the number of shares to be issued upon conversion of such loans to an amount of 50,000,000 shares of Common stock each. As a consequence, the Company reclassified the fair value of options and warrants previously granted to service providers and investors from liability to equity. The fair value as of June 14, 2006, amounted to $7,190,829.

NOTE 6:- SHORT-TERM LOAN

On February 8, 2006, the Company issued a $189,000 Promissory Note due June 8, 2006 (the "Note"), with an interest of 8% to a third party (see also Note 9 to the financial statements as of March 31, 2006). In addition, the Company granted the third party warrants to purchase 189,000 of the Company's Common stock at an exercise price of $0.50 per share. The warrants are fully vested and are exercisable at any time after February 8, 2006 until the third anniversary of the issue date.

The Company agreed to pay $22,500 for due diligence and legal fees .The fees were recorded to deferred charges and are amortized over a four month period.

The fair value of the warrant amounted to approximately $79,380. The Company estimated the fair value of the warrants using a Black and Scholes option pricing model, with the following assumptions: volatility of 119%, risk free interest rate of 4.66%, dividend yield of 0%, and an expected life of 36 months.

In accordance with EITF 00-19, the warrants were recorded as a liability at their entire fair value and the residual amount (the difference between the amounts invested and the fair value of the warrants at the date of issuance) was allocated to the Note as follows: $79,380 to the warrants and $95,620 to the Note.

As a result, an amount equal to the fair value allocated to the warrants was recorded as discount on the Note, and is amortized to financial expenses over a four month period.

The balance as of September 30, 2006 is comprised as follows:

Loan	175,000
Discount	--
Accrued interest	22,855

197,855
=======

The Company recorded, in the period ended September 30, 2006, $ 69,296 as financial expenses in respect to the discount amortization and accrued interest.

The Company accrues additional interest according to the terms of the agreement (annual interest of 15%).

The Company and the lender agreed to postpone the due date of the loan to December 31, 2006 (see Note 8d).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 7:- STOCK CAPITAL

a. Classification of options and warrants to consultants and investors:

According to EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and potentially settled in a Company's Own Stock" (EITF 00-19), in order to classify warrants and options (other than employee stock options) as equity and not as liabilities, the Company must have sufficient authorized and unissued shares of common stock to provide for settlement of those instruments that may require share settlement. Under the terms of the Note, the Company may be required to issue an unlimited number of shares to satisfy the Note's contractual requirements. As such, the Company's warrants and options (other than employee stock options) are required to be classified as liabilities and measured at fair value with changes recognized currently in earnings.

Consequently, on February 7, 2006, the Company reclassified at fair value, options and warrants previously issued to consultants and investors from equity to liability. Such reclassification amounted to $ 7,906 thousand.

On June 14, 2006, the Company signed amendments to the convertible loan agreements dated February 7, 2006 according to which the Company limited the number of shares to be issued upon conversion of such loans to an amount of 50,000,000 shares of Common stock each. As a consequence, the Company reclassified the fair value of options and warrants previously granted to service providers and investors from liability to equity. The fair value as of June 14, 2006, amounted to $7,190,829.

b. The rights of Common stock are as follows:

Common stocks confer their holders the right to receive notice to participate and vote in general meetings of the Company, the right to a stock in the excess of assets upon liquidation of the Company and the right to receive dividends, if declared.

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

c. The former president of the Company donated services valued at $6,000 and rent valued at $1,500 for the six months ended September 30, 2004. These amounts were charged to the statement of operations as part of discontinued operations and classified as additional paid in capital in the stockholders' equity.

d. Issuance of stocks, warrants and options:

1. Private placements

a) On June 24, 2004, the Company issued to investors 8,510,000 Common stocks for total proceeds of $ 60,175 (net of $25,000 issuance expenses).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 7:- STOCK CAPITAL (Cont.)

b) On February 23, 2005, the Company completed a private placement round for sale of 1,894,808 units for total proceeds of $1,418,137. Each unit consists of one share of Common stock and a three year warrant to purchase one stock of Common stock at $2.50 per stock. This private placement was consummated in four trances which closed in October 2004, November 2004 and February 2005.

c) On March 21, 2005, the Company entered into lock up agreements with its 29 stockholders with respect to 15,290,000 stocks held by them .Under these lock-up agreements, these security holders may not transfer their stocks to anyone other than permitted transferees without the prior consent of the Company's Board of Directors, for the period of time as follows: (i) 85% of the securities shall be restricted from transfer for the twenty-four month period following July 8, 2004 and (ii) 15% of the securities shall be restricted from transfer for the twelve month period following July 8, 2004.

On March 26, 2005, the Company completed Amended lock up

agreements with five from the twenty nine stockholders mentioned above with respect to 7,810,000 shares held by them .These Lock-Up Agreements amend and restate the previous lock-up agreements.

Under the Lock-Up Agreements, these stockholders may not sell or otherwise transfer their stocks to anyone other than permitted transferees without the prior written consent of the Company's Board of Directors, as follows: (i) 85% of the stocks will be restricted from transfer until December 31, 2006 and (ii) 15% of the stocks will be free from the transfer restrictions. All of the restrictions under the Lock-Up Agreements will automatically terminate upon the effectiveness of any registration statement filed by the Company for the benefit of Ramot.

d) On May 12, 2005, the Company issued to a certain investor 186,875 shares of its Common stock for total proceeds of $149,500 at a price per stock of $ 0.8.

e) On July 27, 2005, the Company issued to certain investors 165,000 shares of its Common stock for total proceeds of $99,000 at a price per stock of $0.6.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 7:- STOCK CAPITAL (Cont.)

2. Options to employees and to directors

On November 25, 2004, the Company's stockholders approved the 2004 Global Stock Option Plan and the Israeli Appendix thereto (which applies solely to participants who are residents of Israel) and on March 28, 2005, the Company's stockholders approved the 2005 U.S. Stock Option and Incentive Plan, and the reservation of 9,143,462 shares of Common stock for issuance in aggregate under these stock option plans.

Each option granted under the plans is exercisable until the earlier of ten years from the date of grant of the

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

As of September 30, 2006, 3,819,039 shares are available for future grants.

On May 27, 2005, the Company granted two of its directors 200,000 restricted shares (100,000 each). The restricted shares are subject to the Company's right to repurchase them at a purchase price of par value ($ 0.00005). The restrictions of the stocks shall lapse in three annual and equal portions commencing the grant date.

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

On May 2, 2006, the Company granted two of its directors 200,000 restricted shares (100,000 each). The restricted shares are subject to the Company's right to repurchase them at a purchase price of par value ($0.00005). The restrictions of the shares shall lapse in three annual and equal portions commencing the grant date. The shares were issued on June 7, 2006 to one director and on July 2, 2006 to the second director. The compensation related to the stocks issued on June 7, in the amount of $ 49,000 will amortize over the vesting period as general and administrative expenses.

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

On September 17, 2006, the Company entered into an amendment to the Company's option agreement with one of its directors. The amendment changes the exercise price of 100,000 options granted to them to $0.15 per share from $0.75 per share. Due to the modification, the difference between the fair value of the option on grant date and the fair value on the modification date will be amortized over the remaining vesting period.

In U.S. dollars (except stock data)

NOTE 7:- STOCK CAPITAL (Cont.)

Compensation expenses recorded by the Company in respect of its stock-based employee compensation awards amounted to $559,010, $1,173,547 and $586,935 for the periods ended September 30, 2006, March 31, 2006 and September 30, 2005, respectively.

On February 6, 2006, the Company entered into an amendment to the Company's option agreement with Mr. David Stolick, the Company's Chief Financial Officer. The amendment changes the exercise price of the 400,000 options granted to him on March 29, 2005 to $ 0.15 per share from $ 0.75 per share. Due to the modification, the award is accounted for as a variable from the date of modification.

On June 22, 2006, the Company entered into an amendment to the Company's option agreement with two of its employees. The amendment changes the exercise price of 270,000 options granted to them to $0.15 per share from $ 0.75 per stock. Due to the modification, the difference between the fair value of the option on grant date and the fair value on the modification date will be amortized over the remaining vesting period.

3. Stocks and warrants to service providers:

a) Warrants:

Issuance date	Number of warrants	Exercise price	Warrants exercisable	Exercisable through
November 2004	12,800,845	$ 0.01	1,920,126	November 2010
December 2004	1,800,000	$ 0.00005	1,800,000	December 2014
February 2005	1,894,808	$ 2.5	1,894,808	February 2008
May 2005	47,500	$ 1.62	47,500	May 2010
June 2005	30,000	$ 0.75	30,000	June 2010
August 2005	70,000	$ 0.15	70,000	August 2008
September 2005	3,000	$ 0.15	3,000	September 2008
September 2005	36,000	$ 0.75	12,953	September 2010
September - December 2005	500,000	$ 1	500,000	September - December 2008
December 2005	20,000	$ 0.15	20,000	December 2008
December 2005	457,163	$ 0.7	118,570	July 2010
February 2006	230,000	$ 0.65	--	February 2008
February 2006	40,000	$ 1.5	40,000	February 2011
February 2006	8,000	$ 0.15	--	February 2011
February 2006	189,000	$ 0. 5	189,000	February 2009
May 2006	50,000	$ 0.00005	50,000	May 2016
May 2006	24,000	$ 0.35	24,000	May - September 2011
May 2006	24,000	$ 0.75	24,000	May - September 2011
May 2006	200,000	$ 1	200,000	May 2011
June 2006	24,000	$ 0.15	24,000	June 2011

18,448,316	6,967,957

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 7:- STOCK CAPITAL (Cont.)

The fair value for the warrants to service providers was estimated on the date of grant using Black-Scholes option pricing model, with the following weighted-average assumptions for the periods ended September 30, 2006, March 31, 2006 and September 30, 2005; weighted average volatility of 110%, 115% and 109% respectively, risk- free interest rates of 4.375%, 4.605% and 3.9% respectively dividend yields of 0% and a weighted average life of the options of 4, 4 and 2.3 years, respectively.

b) Stocks:

On June 1 and June 4, 2004, the Company issued 40,000 and 150,000 Common shares for 12 months filing services and legal and due-diligence services with respect to private placement, respectively. Compensation expenses related to filing services, totaling $26,400, are amortized over a 12-month period. Compensation related to legal services, totaling $105,000 were recorded as equity issuance cost and did not affect the statement of operations.

On July 1 and September 22, 2004, the Company issued 20,000 and 15,000 shares to a former director for financial services for the first and second quarters of 2004, respectively. Compensation expenses of $38,950 were recorded as general and administrative expenses.

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

restricted shares at a purchase price equal to the then fair market value of the restricted shares.

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

NOTE 7:- STOCK CAPITAL (Cont.)

In July 2005, the Company issued to its legal advisors 50,000 shares for legal services for 12 months. The compensation related to the shares in the amount of $ 37,500 was recorded as general and administrative expenses.

In January 2006, the Company issued to two service providers 350,000 restricted shares at a purchase price of $ 0.00005 par value under the U.S Stock Option and Incentive Plan of the Company. The restricted shares are subject to the company's right to repurchase them within 12 months of the grant date as follows: (i) in the event that the service providers breach their obligations under the agreement, the Company shall have the right to repurchase the restricted shares at a purchase price equal to the par value; and (ii)in the event that the service providers have not breached their obligations under the service agreements the Company shall have the right to repurchase the restricted shares at a purchase price equal to the fair market value of the restricted stocks. The compensation related to the shares in the amount of $ 58,203 was recorded as general and administrative expenses.

On March 6, 2006, the Company issued to its legal advisor 34,904 shares of the Company common stock. The shares are in lieu of $18,500 payable to the legal advisor. The compensation related to the shares, in the amount of $18,500 was recorded as general and administrative expenses.

On April 13, 2006, the Company issued to service providers 60,000 shares at a purchase price of $ 0.00005 par value under the U.S Stock Option and Incentive Plan

of the Company. The compensation related to the shares, in the amount of $25,800 was recorded as general and administrative expenses.

On April 14, 2006, the Company signed an agreement with a service provider. According to the agreement the Company is obligated to issue 200,000 shares of restricted shares at a purchase price of $0.00005 par value under the U.S Stock Option and Incentive Plan of the Company with some purchase rights. The shares were issue on August 14, 2006. The restricted shares are subject to the Company's right to repurchase them within one year of the grant date. If the agreement is terminated on or prior to July 31, 2006, then the company may repurchase up to 9/12 of the original number of shares. Each month thereafter the Company shall have the right purchase a lesser amount by 1/12 of the original number of shares, until the shares are fully vested in not subject to forfeiture. The restrictions of the shares shall lapse in twelve monthly in equal portions commencing with the grant date.

On May 9, 2006, the Company issued to its legal advisor 65,374 shares of the Company's common stock in lieu of legal services. The compensation related to the shares, in the amount of $33,341 was recorded as general and administrative expenses.

On June 7, 2006, the Company issued 50,000 Common shares for filing services for 12 months. The compensation related to the shares, in the amount of $24,500 was recorded as general and administrative expenses.

NOTE 7:- STOCK CAPITAL (Cont.)

On June 7, 2006, the Company issued 200,000 shares to finance consultant for his services. The compensation related to the shares, in the amount of $98,000 was recorded as general and administrative expenses.

On May 2, 2006 the Company granted options to purchase 12,000 shares of Common stock of the Company per month, to its consultant. 6,000 options granted at an exercise price of $0.75, 6,000 granted at an exercise price of $ 0.35. The options are fully vested and expire after 5 years. As of September 30, 2006, the Company granted 48,000 shares to the consultant.

The Company also granted the consultant 200,000 options at an exercise price of $1. The options are fully vested and expire after 10 years.

The compensation related to the options, in the aggregate amount of $75,760 was recorded as general and administrative expenses.

On June 11, 2006, the Company granted options to purchase 24,000 shares of Common stock of the Company to a service provider. The options are fully vested and expire after 5 years. The compensation related to the shares, in the amount of $11,040 was recorded as general and administrative expenses.

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

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

c) Stock-based compensation recorded by the Company in respect of stocks and warrants granted to service providers amounted to $ 437,196, $ 662,069 and $ 237,719 for the periods ended September 30, 2006, March 31, 2006 and September 30, 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except stock data)

NOTE 8:- SUBSEQUENT EVENTS

a. On October 3, 2006, the Company issued to its legal advisor 231,851 shares of the Company's Common stock. The stocks are in lieu of $83,265 payable to the legal advisor.

b. On October 14, 2006, the Company signed an agreement with a service provider. According to the agreement the Company is obligated to issue 300,000 shares of restricted stock at a purchase price of $0.00005 par value.

c. On October 18, 2006, the Company issued to its business development advisor, based on the agreement, 240,000 shares of the Company's Common stock.

d. On October 23, 2006, the Company increased its authorized Common shares to 440,000,000 based on the shareholders decision dated September 20, 2006.

e. On October 3, 2006, the Company issued 630,000 warrants to purchase the Company's Common stock at a purchase

price of $0.3 shares to the lender (see Note 6) for lender's agreement to extend the maturity date of the note to December 31, 2006 and to waive any and all interest or fees. The shares are exercisable and expire after three years.

f. On November 9, 2006, the Company issued a $50,000 Convertible Promissory Note ("the Note") in connection with a third party's loan to the Company. Interest on the Note will accrue at the rate of twelve percent per annum but not less than $750 in case of early pay back and will be due and payable in full on February 12, 2007. The Note will become immediately due and payable upon the occurrence of certain Events of Default, as defined in the Note. The third party has the right at any time prior to the close of business on the Maturity Date to convert all or part of the outstanding principal and interest amount of the Note into shares of the Company's Common stock, $ 0.00005 par value stock (the Common Stock"). The Conversion Price, as defined in the Note, will be 75% of the average of the last bid and asking price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares. The Company limited the number of stocks to be issued upon conversion of such loan to an amount of 3,000,000 shares of Common stock.

Item 2. Plan of Operation.

Company Overview

Since July 8, 2004, the Company's business has focused on the development of adult stem cell therapies for treatment of neurodegenerative diseases. The Company's business activities are based on technology, know-how and patent applications exclusively licensed world-wide from Ramot at Tel Aviv University Ltd. ("Ramot"). Under the terms of the Research and License Agreement with Ramot, Ramot granted to us an exclusive license to (i) certain stem cell technology developed at the Felsenstein Medical Research Center of Tel Aviv University and related patent applications, and (ii) the results of further research to be performed at Tel Aviv University relating to this technology under the supervision of Professor Eldad Melamed and Dr. Daniel Offen, the lead inventors.

Recent Developments

Letter of Intent

In July 2006, we entered into a Letter of Intent with the Fundacion para la Investigacion Medica Aplicada (FIMA), as the operator of the Center for Applied

Medical Research of the University of Navarra in Spain to conduct safety and efficacy trials in primates of our Parkinson's disease stem cell therapy. The Letter of Intent is non-binding and it provides that we intend to negotiate and enter into a definitive agreement with FIMA pursuant to which we will collaborate to conduct the safety trials of our adult stem cell therapy in primates and, depending on the outcome of the trials, we will collaborate to conduct safety trials in humans in Spain. The Letter of Intent also provides that, subject to the parties entering into a definitive agreement, FIMA will be entitled to certain net royalties from us based on sales from any resulting Parkinson's disease treatments in Portugal, Spain, France and the Netherlands.

Change in Fiscal Year

On September 17, 2006, our Board of Directors determined to change our fiscal year-end from March 31 to December 31. Our report covering the transition period beginning April 1, 2006 and ending December 31, 2006 will be filed on Form 10-KSB.

Stem Cell Therapy

Our activities are within the stem cell therapy field. Stem cells are non-specialized cells with a potential for both self-renewal and differentiation into cell types with a specialized function, such as muscle, blood or brain cells. The cells have the ability to undergo asymmetric division such that one of the two daughter cells retains the properties of the stem cell, while the other begins to differentiate into a more specialized cell type. Stem cells are therefore central to normal human growth and development, and also are a potential source of new cells for the regeneration of diseased and damaged tissue. Stem cell therapy aims to restore diseased tissue function by the replacement and/or addition of healthy cells by stem cell transplants.

Currently, two principal platforms for cell therapy products are being explored: (i) embryonic stem cells ("ESC"), isolated from the inner mass of a few days old embryo; and (ii) adult stem cells, sourced from bone marrow, cord blood and various organs. Although ESCs are the easiest to grow and differentiate, their use in human therapy is limited by safety concerns associated with their tendency to develop Teratomas (a form of tumor) and their potential to elicit an immune reaction. In addition, ESC has generated much political and ethical debate due to their origin in early human embryos.

Cell therapy using adult stem cells does not suffer from the same concerns. Bone marrow is the tissue where differentiation of stem cells into blood cells (haematopoiesis) occurs. In addition, it harbors stem cells capable of differentiation into mesenchymal (muscle, bone, fat and other) tissues. Such mesenchymal stem cells have also been shown capable of differentiating into nerve, skin and other cells. In fact, bone marrow transplants have been safely and successfully performed for many years, primarily for treating leukemia, immune deficiency diseases, severe blood cell diseases, lymphoma and multiple myeloma. Moreover, bone marrow may be obtained through a simple procedure of aspiration, from the patient himself, enabling autologous cell therapy, thus obviating the need for donor matching, circumventing immune rejection and other immunological mismatch risks, as well as avoiding the need for immunosuppressive therapy. Thus, we believe bone marrow, in particular autologous bone marrow, capable of in vitro growth and multipotential differentiation, presents a preferable source of therapeutic stem cells.

Parkinson's Disease ("PD")

Background

PD is a chronic, progressive disorder, affecting certain nerve cells, which reside in the Substantia Nigra of the brain and which produce dopamine, a

neurotransmitter that directs and controls movement. In PD, these dopamine-producing nerve cells break down, causing dopamine levels to drop below the threshold levels and resulting in brain signals directing movement to become abnormal. The cause of the disease is unknown.

Over four million people suffer from PD in the western world, of whom about 1.5 million are in the United States. In over 85% of cases, PD occurs in people over the age of 65. Thus, prevalence is increasing in line with the general aging of the population. We believe the markets for pharmaceutical treatments for PD have a combined value of approximately $4 billion per year. However, these costs are dwarfed when compared to the total economic burden of the disease, which has been estimated by the National Institute of Neurological Disease (NINDS) to exceed $26 billion annually in the U.S. alone, including costs of medical treatment, care-giving, facilities and other services, as well as loss of productivity of both patients and caregivers.

Description

The classic symptoms of PD are shaking (tremor), stiff muscles (rigidity) and slow movement (bradykinesia). A person with fully developed PD may also have a stooped posture, a blank stare or fixed facial expression, speech problems and difficulties with balance or walking. Although highly debilitating, the disease is not life threatening and an average patient's life span is approximately 15 years.

Current Treatments

Current drug therapy for PD primarily comprises dopamine replacement, either directly (levodopa), with dopamine mimetics or by inhibition of its breakdown. Thus, the current drugs focus on treating the symptoms of the disease and do not presume to provide a cure.

Levodopa, which remains the standard and most potent PD medication available, has a propensity to cause serious motor response complications (MRCs) with long-term use. Moreover, effective drug dosage often requires gradual increase, leading to more adverse side effects and eventual resistance to their therapeutic action. This greatly limits patient benefit. Therefore, physicians and researchers are continuously seeking levodopa-sparing strategies in patients with early-stage disease to delay the need for levodopa, as well as in patients with late stage disease who no longer respond to therapy.

Prescription drugs to treat PD currently generate sales of over $1 billion and the market is expected to grow to approximately $2.3 billion by 2010, driven by the increase in size of the elderly population and the introduction of new PD therapies that carry a higher price tag than the generic levodopa.

Another method for treating PD is Deep Brain Stimulation (DBS), which consists of transplanting electrodes deep into the brain to provide permanent electrical stimulation to specific areas of the brain and to cause a delay in the activity in those areas. However, DBS is problematic as it often causes uncontrollable and severe side effects such as bleeding in the brain, infection and depression. In addition, like drug therapy, DBS focuses on treating the symptoms of PD and does not provide a cure.

There is a greatly unsatisfied need for novel approaches towards management of PD. These include development of neurotrophic agents for neuroprotection and/or neurorestoration, controlling levodopa-induced adverse side effects, developing

compounds targeting nondopaminergic systems (e.g., glutamate antagonists) controlling the motor dysfunction such as gait, freezing, and postural imbalance, treating and delaying the onset of disease-related dementia and providing simplified dosing regimens.

In addition to the symptomatic drug development approaches, there is an intense effort to develop cell and gene therapeutic "curative" approaches to restore the neural function in patients with PD, by (i) replacing the dysfunctional cells with dopamine producing cell transplant, or by (ii) providing growth factors and proteins, such as glial derived neurotrophic factor (GDNF), that can maintain or preserve the patient's remaining dopaminergic cells, protecting them from further degeneration. Preclinical evaluation of cell therapeutic approaches based on transplantation of dopaminergic neurons differentiated in vitro from ESC, have been successful in ameliorating the parkinsonian behavior of animal models, as has direct gene therapy with vectors harboring the GDNF gene. However, these approaches are limited, in the first case, by the safety and ethical considerations associated with use of ESC, and, in the second case, by the safety risks inherent to gene therapy.

In fact, PD is the first neurodegenerative disease for which cell transplantation has been attempted in humans, first with adrenal medullary cells and, later, with tissue grafts from fetal brain. About 300 such fetal transplants have already been performed and some benefits have been observed, mainly in younger patients. However, this approach is not only impractical but greatly limited by the ethical issues influencing the availability of human fetuses. The above considerations have led to intensive efforts to define and develop appropriate cells from adult stem cells.

Amyotrophic Lateral Sclerosis ("ALS")

ALS, often referred to as "Lou Gehrig's disease," is a progressive neurodegenerative disease that affects nerve cells in the brain and the spinal cord. Motor neurons reach from the brain to the spinal cord and from the spinal cord to the muscles throughout the body. The progressive degeneration of the motor neurons in ALS eventually leads to death. As motor neurons degenerate, they can no longer send impulses to the muscle fibers that normally result in muscle movement. With voluntary muscle action progressively affected, patients in the later stages of the disease may become completely paralyzed. However, in most cases, mental faculties are not affected.

Approximately 5,600 people in the U.S. are diagnosed with ALS each year. It is estimated that as many as 30,000 Americans may have the disease at any given time, with 100,000 across the western world. Consequently, the total estimated cost of treating ALS patients is approximately $1.25 billion per year.

Description

Early symptoms of ALS often include increasing muscle weakness or stiffness, especially involving the arms and legs, speech, swallowing or breathing.

ALS is most often found in the 40 to 70 year age group, where it is actually quite common, with the same incidence as Multiple Sclerosis (MS). There appear to be more MS sufferers because MS patients tend to live much longer, some for 30 years or more. The life expectancy of an ALS patient averages about two to five years from the time of diagnosis. However, up to 10% of ALS patients will survive more than ten years.

Current Treatment

The physician bases medication decisions on the patient's symptoms and the stage of the disease. Some medications used for ALS patients include:

- Riluzole - the only medication approved by the FDA to slow the progress of ALS. While it does not reverse ALS, riluzole has been shown to reduce nerve damage. Riluzole may extend the time before a patient needs a ventilator (a machine to help breathe) and may prolong the patient's life by several months;

- Baclofen or Diazepam - these medications may be used to control muscle spasms, stiffness or tightening (spasticity) that interfere with daily activities; and

- Trihexyphenidyl or Amitriptyline - these medications may help patients who have excess saliva or secretions, and emotional changes.

Other medications may be prescribed to help reduce such symptoms as fatigue, pain, sleep disturbances, constipation, and excess saliva and phlegm.

Our Approach

We intend to focus our efforts to develop cell therapeutic treatments for PD based on the expansion of human mesenchymal stem cells from adult bone marrow and their differentiation into neuron like cells, such as neurons that produce dopamine and astrocytes (glial cells) that produce neurotrophic factors (NTF) including GDNF, BDNF, NGF and IGF-1. Our aim is to provide neural stem cell transplants that (i) "replace" damaged dopaminergic nerve cells and diseased tissue by augmentation with healthy dopamine producing cells; and (ii) maintain, preserve and restore the damaged and remaining dopaminergic cells in the patient's brain, protecting them from further degeneration.

The research team led by Prof. Melamed and Dr. Offen has achieved expansion of human bone marrow mesenchymal stem cells and their differentiation into both types of brain cells, neurons and astrocytes, each having therapeutic potential, as follows:

NurOwnTM program 1 - DA neuron-like cells - human bone marrow derived dopamine producing neural cells for restorative treatment in PD. Human bone marrow mesenchymal stem cells were isolated and expanded. Subsequent differentiation of the cell cultures in a proprietary differentiation medium generated cells with neuronal-like morphology and showing protein markers specific to neuronal cells. Moreover, the in vitro differentiated cells were shown to express enzymes and proteins required for dopamine metabolism, particularly the enzyme tyrosine hydroxylase. Most importantly, the cells produce and release dopamine in vitro. Further research consisting of implanting these cells in an animal model of PD (6-OHDA induced lesions), showed the differentiated cells exhibit long-term engraftment, survival and function in vivo. Most importantly, such implantation resulted in marked attenuation of their symptoms, essentially reversing their Parkinsonian movements.

NurOwnTM program 2 - Astrocyte-like cells - human bone marrow derived NTF producing astrocyte for treatment of PD, ALS and spinal cord injury. In vitro differentiation of the expanded human bone marrow derived mesenchymal stem cells in a special proprietary medium and generated cells with astrocyte-like morphology that expressed astrocyte specific markers. Moreover, the in vitro differentiated cells were shown to express and secrete GDNF, as other NTF, into the growth medium. GDNF is a protein, previously shown to protect, preserve and even restore neurons, particularly dopaminergic cells in PD, but also neuron function in other neurodegenerative pathologies such as ALS and Huntington's. Unfortunately, therapeutic application of GDNF is hampered by its poor brain penetration and stability. Attempting to infuse the protein directly to the

brain is impractical and the alternative, using GDNF gene therapy, suffers from the limitations and risks of using viral vectors. Our preliminary results show that our astrocyte-like cells, when transplanted into PD rats with a 6-OHDA lesion, show significant efficacy. Within weeks of the transplantation, there was an improvement of more than 50% in the animals' characteristic disease symptoms.

We intend to optimize the proprietary processes for transformation of human bone marrow expanded mesenchymal stem cells into differentiated cells that produce dopamine and/or NTF for implantation to PD and ALS patients. The optimization and process development will be conducted in an effort to comply with FDA guidelines for Good Tissue Practice (GTP) and Good Manufacturing Practice (GMP). Once the optimization of the process is completed, we intend to evaluate the safety and efficacy of our various cell transplants in animal models, (separately and in combination). Based on the results in animals we intend to use the differentiated cell products for conducting clinical trials to assess the efficacy of the cell therapies in PD and ALS patients.

Our technology is based on the NurOwnTM products - an autologous cell therapeutic modality, comprising the extraction of the patient bone marrow, processed into the appropriate neuronal cells and re-implanted into the patient's brain. This approach is taken in order to increase patient safety and minimize any chance of immune reaction or cell rejection.

We believe that the therapeutic modality will comprise the following:

- Bone marrow aspiration from patient;
- Isolating and expanding the mesenchymal stem cells;
- Differentiating the expanded stem cells into neuronal-like dopamine producing cells and/or astrocytes-like NTF producing cells; and
- Implantation of the differentiated cells into patient from whom the bone marrow was extracted.

Business Strategy

Our efforts are currently focused on the development of the technology to convert the process from the lab stage to the clinical stage, with the following main objectives:

- Developing the cell differentiation process according to health regulation guidelines;
- Demonstrating safety and efficacy, first in animals and then in patients; and
- Setting up centralized facilities to provide NurOwnTM therapeutic products and services for transplantation in patients.

We intend to enter into strategic partnerships as we progress towards advanced clinical development and commercialization with companies responsible for advanced clinical development and commercialization. We intend to provide strategic partners with services required to process the NurOwnTM products for the clinical trials. This approach is intended to generate an early inflow of up-front and milestone payments and to enhance our capacities in regulatory and clinical infrastructure while minimizing expenditure and risk.

Intellectual Property

We have filed the following patent and trademark applications:

- The NurOwnTM technology for differentiation of dopamine producing neuron-like cells is covered by PCT patent application number PCT/IL03/00972 filed on November 17, 2003.

- The NurOwnTM technology for differentiating astrocyte-like cells is covered by PCT patent application number PCT/IL2006/000699 filed on June 18, 2006.

- A provisional patent application 60/748,219 was filed for covering methods of generating oligodendrocytes astrocytes from bone marrow stem cells on December 8, 2005.

- We have filed for a trademark on NurOwnTM.

The patent applications, as well as relevant know-how and research results are licensed from Ramot. We intend to work with Ramot to protect and enhance our intellectual property rights by filing continuations and new patent applications on any improvements to NurOwnTM and any new discoveries arising in the course of research and development.

Research and License Agreement with Ramot

On July 8, 2004, we entered into our Research and License Agreement (the "Original Ramot Agreement") with Ramot, the technology licensing company of Tel Aviv University, which Agreement was amended on March 30, 2006 by the Amended Research and License Agreement (described below). Under the terms of the Original Ramot Agreement, Ramot granted to us an exclusive license to (i) the know-how and patent applications on the above mentioned stem cell technology developed by the team led by Prof. Melamed and Dr. Offen, and (ii) the results of further research to be performed by the same team on the development of the stem cell technology. Simultaneously with the execution of the Original Ramot Agreement, we entered into individual consulting agreements with Prof. Melamed and Dr. Offen pursuant to which all intellectual property developed by Prof. Melamed or Dr. Offen in the performance of services thereunder will be owned by Ramot and licensed to us under the Original Ramot Agreement.

s of November 4, 2004, we entered into consulting agreements with Prof. Melamed and Dr. Offen, under which we pay each of them an annual consulting fee of $72,000 and we issued each of them warrants to purchase 1,097,215 shares of our common stock (3% of our issued and outstanding shares at such time).

Each of the warrants is exercisable for a five-year period beginning on November 4, 2005.

Under the Original Ramot Agreement, we agreed to fund further research relating to the licensed technology in an amount of $570,000 per year for an initial period of two years, and for an additional two-year period if certain research milestones are met.

In consideration for the license, we originally agreed to pay Ramot:

- An up-front license fee payment of $100,000;

- An amount equal to 5% of all Net Sales of Products (as those terms are defined in the Original Ramot Agreement); and

- An amount equal to 30% of all Sublicense Receipts (as such term is defined in the Original Ramot Agreement).

In addition, under the Original Ramot Agreement, we issued to Ramot and its designees, warrants to purchase an aggregate of 10,606,415 shares of our common stock (29% of our issued and outstanding shares as of November 4, 2004). Each of the warrants is exercisable for a five-year period beginning on November 4, 2005.

On March 30, 2006, we entered into an Amended Research and License Agreement (the "Amended Research and License Agreement") with Ramot. Under the Amended Research and License Agreement, the funding of further research relating to the licensed technology in an amount of $570,000 per year has been reduced to $380,000 per year. Moreover, under the Amended Research and License Agreement, the initial period of time that the Company has agreed to fund the research has been extended from an initial period of two (2) years to an initial period of three (3) years. The Amended Research and License Agreement also extends the additional two-year period in the Original Ramot Agreement to an additional three-year period, if certain research milestones are met. In addition, the Amended Research and License Agreement reduces certain royalties payments that the Company may have to pay from five percent (5%) to three percent (3%) of all Net Sales (as defined therein) in cases of third party royalties. The Amended Research and License Agreement also reduces potential payments concerning sublicenses from 30% to 20-25% of Sublicense Receipts (as defined in the agreement).

Employees

As of November 10, 2006, we had two executive officers, Yoram Drucker, our Chief Operating Officer, and David Stolick, our Chief Financial Officer. We are currently conducting a search for a Chief Executive Officer. We have engaged consultants, attorneys and accountants as necessary. We currently have eight scientific and administrative employees. Assuming we consummate our intended financings, we expect to increase our staff significantly in the near future. None of our employees is represented by a labor union and we believe that we have good relations with our employees.

Facilities; Equipment

On December 1, 2004, our Israeli subsidiary, Brainstorm Cell Therapeutics Ltd. (the "Subsidiary"), entered into a lease agreement for the lease of premises in 12 Basel Street, Petach Tikva, Israel, which include approximately 600 square meters of office and laboratory space. The term of the lease is 36 months, with two options to extend: one for an additional 24 months (the "First Option"); and one for an additional 36 months (the "Second Option"). Rent is to be paid on a quarterly basis in the following amounts: (i) NIS 17,965 (approximately $4,046) per month during the first 12 months of the lease; (ii) NIS 19,527 (approximately $4,398) per month during the following 24 months of the lease; (iii) NIS 22,317 (approximately $5,026) per month during the First Option period; and (iv) NIS 23,712 (approximately $5,340) per month during the Second Option period.

In May 2005, we completed leasehold improvements of the Petach Tikva facility for which we paid the contractor approximately $368,000 and issued it fully-vested options to purchase 30,000 shares of our common stock at an exercise price of $0.75 per share. The lessor has reimbursed us $82,000 in connection with these improvements. We relocated to the new facility in May 2005 and, assuming we complete additional financings, we intend to purchase certain additional laboratory equipment at an estimated cost of $200,000.

The address of our principal executive offices is 110 East 59th Street, New York, NY 10022. Our monthly rent at our principal executive offices is $2,500.

Plan of Operations

Assuming we can successfully complete our additional necessary financings, our primary objectives over the next twelve (12) months will be:

- To define and optimize our NurOwnTM technology in human bone marrow cells in order to prepare the final process and production for clinical studies in accordance with health authorities' guidelines. We intend to perfect methods for the stem cell growth and differentiation in specialized growth media, as well as methods for freezing, thawing, storing and transporting the expanded mesenchymal stem cells, as well as the differentiated neuronal cells;

- To verify the robustness and the reproducibility of the process;

- To further repeat the process using bone marrow from Parkinson's patients;

- To conduct further studies in animal models of PD (mice, rats and primates) to evaluate the engraftment, survival and efficacy of our cell implants for our astrocyte-like cells;

- To set up standard and reproducible production procedures;

- To develop analytical methodology and specifications to be used as release criteria;

- To set up a quality control system for the processing of our cells;

- To conduct a full safety study of the final cell product for clinical trials in humans; and

- To write up clinical protocols for phase I & II clinical studies.

All of these activities will be coordinated with a view towards the execution of clinical trials of the dopamine and/or astrocyte-like-producing differentiated cell implants in humans. We intend to crystallize our development plans with the assistance of our scientific advisory board members as well as to retain external regulatory consultants, expert in the FDA cell therapy regulation guidelines.

We also intend to continue our close cooperation and funding of the research programs conducted by the scientific team led by Prof. Melamed and Dr. Offen at the Tel-Aviv University. These programs will focus on further understanding and optimization of the technology towards the generation of better processes for generation of dopaminergic and other neurons as well as Oligodendrocytes to target additional neurodegenerative diseases, such as ALS and Multiple Sclerosis (MS).

In addition, we intend to identify and evaluate in-licensing opportunities for development of innovative technologies utilizing cell and gene therapy for diabetes, cardiac disease and other indications.

Cash Requirements

At September 30, 2006, we had $146,957 in total current assets and $2,099,748 in total current liabilities and on November 10, 2006, we had approximately $30,000 in cash. We will need to raise additional funds through public or private debt or equity financings within the next month to meet our anticipated expenses so that we can execute our business plan. Although we have been seeking such additional financings, no commitments to provide additional funds have been made by management, other shareholders or third parties. We may not be able to raise additional funds on favorable terms or at all. If we are unable to obtain additional funds in a timely manner, we will be unable to execute our business plan and we may be forced to cease our operations.

On November 9, 2006, we borrowed $50,000 from one of our existing shareholders. In connection with the loan, we issued a $50,000, 12% Convertible Promissory Note due February 12, 2007. Interest accrues at the rate of twelve percent per annum, but not less than $750 and will be due and payable in full on February 12, 2007. Any amount overdue shall bear interest from the date it became overdue at an annual rate of seventeen percent per annum. The note will become immediately due and payable upon the occurrence of certain events of default. The holder has the right at any time prior to the close of business on February 12, 2007 to convert all or part of the outstanding principal and interest amount of the note into shares of our common stock. Pursuant to the note, we may not, in any event, issue greater than 3,000,000 shares of our common stock upon conversion. The conversion price will be 75% of the average of the last bid and ask price of our common stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to our receipt of the holder's written notice of election to convert. The conversion price will be adjusted in the event of a stock dividend, reclassification or stock split.

On September 14, 2006, we borrowed a net amount of $90,000 from an investor. In connection with such loan we issued a $100,000, 10% Convertible Promissory Note due September 14, 2007 (the "September Note"). Interest on the September Note accrues at the rate of ten percent per annum and will be due and payable in full on September 14, 2007 (the "September Maturity Date"). Any amount overdue shall bear interest from the date it became overdue at an annual rate of fifteen percent per annum. The September Note will become immediately due and payable upon the occurrence of certain events of default. The Holder has the right at any time prior to the close of business on the September Maturity Date to convert all or part of the outstanding principal and interest amount of the September Note into shares of our common stock. Pursuant to the September Note, we shall not, in any event, issue greater than 10,000,000 shares of our common stock, in the aggregate, to the Holder upon conversion of the September Note. The conversion price, as defined in the September Note, will be 75% (50% upon the occurrence of an event of default) of the average of the last bid and ask price of our common stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to our receipt of the Holder's written notice of election to convert. The conversion price will be adjusted in the event of a stock dividend, reclassification or stock split.

In order to execute our plan of operation for the coming year we will need to raise at least $4 million.

Under the Amended Research and License Agreement, we are obligated to pay Ramot $95,000 on a quarterly basis through April 2007, and, if certain research milestones are met, for an additional three-year period. If we fail to comply with these obligations to Ramot, Ramot may have the right to terminate the license. As of September 30, 2006, we owed Ramot $272,127 in overdue payments under the Amended Research and License Agreement. We are negotiating with Ramot

to obtain a deferral of these payments until we raise additional capital. If we are unable to reach an agreement with Ramot and Ramot elects to terminate our license, we would need to change our business strategy entirely or would be forced to cease our operations.

Our other material cash needs for the next 12 months will include, among others, employee salaries and benefits, facility lease, capital equipment expenses, legal and audit fees, patent prosecution fees, consulting fees, payments for outsourcing of certain animal experiments and, possibly, upfront payments for in-licensing opportunities and payment for clinical trials in Europe.

Research and Development

Our research and development efforts have focused on improving growth conditions and developing tools to evaluate the differentiation of bone marrow stem cells, into neural-like cells, suitable for transplantation as a restorative therapy for neurodegenerative diseases. Some highlights achieved in this research include:

- Improving the bone marrow stem cells expansion prior to differentiation;
- Evaluation of methodologies for cryo-preservation of the expanded bone marrow cells prior to differentiation;
- Characterization of the propagated mesenchymal stem according to established CD-markers;
- Determination of timing and growth conditions for the differentiation process;
- Development of molecular tools and cell surface markers to evaluate cell differentiation;
- Demonstrating that the bone marrow derived differentiated cells do produce and secrete several neuron-specific markers;
- Transplantation of the bone marrow derived neural-like cells in the striatum of model animals resulting in long term engraftment; and
- Parkinson's model animals transplanted with the bone marrow derived neural-like cells show significant improvement in their rotational behavior.

For the twelve months ending September 30, 2007, we estimate that our research and development costs will be approximately $3,000,000. We intend to spend our research and development costs on the development of our core NurOwn(TM) technology by developing the cell differentiation process according to FDA guidelines and to conduct the primate clinical trials in Spain. We intend to continue to fund our collaborators at the university lab and in parallel, we have constructed and set up a facility, which includes laboratories for continued development of our proprietary processes. We also intend to fund and finance collaborations with medical centers and strategic partners for future clinical trials.

General and Administrative Expenses

If we can successfully complete our financings, for the twelve months ending

September 30, 2007, we estimate that our general and administrative expenses will be approximately $1,000,000. These expenses will include, among others, salaries, legal and audit expenses, business development, investor and public relations and office maintenance.

We do not expect to generate any revenues in the 12-month period ending September 30, 2007.

In management's opinion, we need to achieve the following events or milestones in the next twelve months in order for us to reach clinical trials for our NurOwn(TM) dopamine or astrocyte-like producing cell differentiation process as planned within one to two years:

- Raise equity or debt financing or a combination of equity and debt financing of at least $13,000,000.
- Complete preclinical studies in rodents to confirm safety and efficacy.
- Complete preclinical studies to confirm safety in monkeys.
- Conduct full safety study of the final cell product for PD.
- Write up clinical protocols for Phase I & II clinical studies.

Purchase or Sale of Equipment

Our subsidiary leases a facility in Petach Tikva, Israel, which includes approximately 600 square meters of laboratory and office space. In May 2005, we completed leasehold improvements of the facility for which we paid the contractor approximately $368,000 and issued to the contractor fully vested options to purchase 30,000 shares of our common stock at an exercise price of $0.75 per share. The lessor has reimbursed us $82,000 in connection with these improvements. We relocated to the new facility in May 2005. As of September 30, 2006, we had purchased laboratory equipment and furniture for a total of approximately $212,000 and assuming we complete additional financings, we intend to purchase certain additional laboratory equipment at an estimated cost of $300,000.

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.

Certain Risk Factors That May Affect Future Results

Any investment in our common stock involves a high degree of risk. You should consider carefully the risks described below, together with the other information contained in this report. If any of the following events actually occurs, our business, financial condition and results of operations may suffer materially. As a result, the market price of our common stock could decline, and you could lose all or part of your investment in our common stock.

In order to execute our business plan, we will need to raise additional capital within the next 30 days. If we are unable to raise additional capital on favorable terms and in a timely manner, we will not be able to achieve our business objectives and we could be forced to restrict or cease our operations. We will need to raise additional funds within the next 30 days 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.

We continue to seek additional financing although we have so far been unsuccessful in our efforts to raise sufficient amounts to allow us to execute on our business plan. Even if we complete an interim or bridge financing we would still need to secure additional funds to effect our plan of operations. We may not be able to raise additional funds on favorable terms, or at all. If we are unable to obtain additional funds on favorable terms and in a timely fashion, we will be unable to execute our business plan and we will be forced to restrict or cease our operations.

Assuming we raise additional funds through the issuance of equity, equity-related or convertible 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.

Our company has a history of losses and we expect to incur losses for the foreseeable future. We had no revenues for the fiscal years ended March 31, 2004, March 31, 2005 or March 31, 2006 or for any interim period since then. As a development stage company, we are in the early stages of executing against our business plan. Our ability to operate successfully is materially uncertain and our operations are subject to significant risks inherent in a developing business enterprise. Most notably, we do not expect that any therapies resulting from our or our collaborators' research and development efforts will be commercially available for a significant number of years, if at all. We also do not expect to generate revenues from strategic partnerships or otherwise for at least the next 12 months, and likely longer. Furthermore, we expect to incur substantial and increasing operating losses for the next several years as we increase our spending to execute our development programs. These losses are expected to have an adverse impact on our working capital, total assets and stockholders' equity, and we may never achieve profitability.

We have a limited operating history, which will limit your ability to evaluate our operations and prospects. We were incorporated under the laws of the State of Washington on September 22, 2000, but only changed our business model to focus on stem cell research in connection with the signing of the Original Ramot Agreement in July 2004. We have a limited operating history upon which you may evaluate our operations and prospects. Our limited operating history makes it difficult to evaluate our commercial viability. Our potential success should be evaluated in light of the problems, expenses and difficulties frequently encountered by new businesses in general and biotechnology businesses specifically.

Our business in the foreseeable future will be based on technology licensed from Ramot and if this license were to be terminated for any reason, including failure to pay the required research funding or royalties, we would need to change our business strategy and we may be forced to cease our operations. The Original Ramot Agreement imposes on us development and commercialization obligations, milestone and royalty payment obligations and other obligations. In October 2004, we made payments to Ramot to cover the up-front license fee, reimbursement of certain patent expenses and initial research funding. Under the Amended Research and License Agreement, we are obligated to pay Ramot $95,000 on a quarterly basis through April 2007, and, if certain research milestones are met, we are obligated to pay Ramot such amount for an additional three-year period. If we fail to comply with these obligations to Ramot, Ramot may have the

right to terminate the license. If Ramot elects to terminate our license, we would need to change our business strategy and we may be forced to cease our operations.

The field of stem cell therapy is new and our development efforts may not yield an effective treatment of human diseases. Except for bone marrow transplants for neoplastic disease, the field of stem cell therapy remains largely untested in the clinical setting. Our intended cell therapeutic treatment methods for PD and ALS involve a new approach that has never been proven to work in human testing. We are still conducting experimental testing in animals for our treatment, which, together with other stem cell therapies, may ultimately prove ineffective in treatment of human diseases. If we cannot successfully implement our stem cell therapy in human testing, we would need to change our business strategy and we may be forced to cease our operations.

Our ability to commercialize the products we intend to develop will depend upon our ability to prove the efficacy and safety of these products according to government regulations. Our present and proposed activities are subject to extensive and rigorous regulation by governmental authorities in the U.S. and other countries. To clinically test, produce and market our proposed future products for human use, we must satisfy mandatory procedural and safety and efficacy requirements established by the FDA and comparable state and foreign regulatory agencies. Typically, such rules require that products be approved by the government agency as safe and effective for their intended use prior to being marketed. The approval process is expensive, time consuming and subject to unanticipated delays. It takes years to complete the testing of a product, and failure can occur at any stage of testing. Our product candidates may not be approved. In addition, our product approvals could be withdrawn for failure to comply with regulatory standards or due to unforeseen problems after the product's marketing approval.

Testing is necessary to determine safety and efficacy before a submission may be filed with the FDA to obtain authorization to market regulated products. In addition, the FDA imposes various requirements on manufacturers and sellers of products under its jurisdiction, such as labeling, GMP, record keeping and reporting requirements. The FDA also may require post-marketing testing and surveillance programs to monitor a product's effects. Furthermore, changes in existing regulations or the adoption of new regulations could prevent us from obtaining, or affect the timing of, future regulatory approvals or could negatively affect the marketing of our existing products.

We may not be able to obtain regulatory approval of potential products, or may experience delays in obtaining such approvals, and we may consequently never generate revenues from product sales because of any of the following risks inherent in the regulation of our business:

- We may not be successful in obtaining the approval to perform clinical studies, an investigational new drug application, or IND, with respect to a proposed product;
- Preclinical or clinical trials may not demonstrate the safety and efficacy of proposed products satisfactory to the FDA or foreign regulatory authorities; or
- Completion of clinical trials may be delayed, or costs of clinical trials may exceed anticipated amounts (for example, negative or inconclusive results from a preclinical test or clinical trial or adverse medical

events during a clinical trial could cause a preclinical study or clinical trial to be repeated, additional tests to be conducted or a program to be terminated, even if other studies or trials relating to the program are successful).

We may not be able to succeed in our business model of seeking to enter into collaborations at appropriate stages of development. We intend to enter into strategic partnerships as we progress towards advanced clinical development and commercialization with companies responsible for such activities. We intend to provide strategic partners with services required to process the NurOwnTM products for the clinical trials. It may be difficult for us to find third parties that are willing to enter into collaborations for our potential products at the appropriate stage of development, on economic terms that are attractive to us or at all. If we are not able to continue to enter into acceptable collaborations, we could fail in our strategy of generating an early inflow of up-front and milestone payments and to enhance our capacities in regulatory and clinical infrastructure while minimizing expenditure and risk and we could be required to undertake and fund further development, clinical trials, manufacturing and marketing activities solely at our own expense.

We may be dependent upon a company with which we enter into collaborations to conduct clinical trials and to commercialize our potential products. If we are ultimately successful in executing our strategy of securing collaborations with companies that would undertake advanced clinical development and commercialization of our products, we may not have day-to-day control over their activities. Any such collaborator may adhere to criteria for determining whether to proceed with a clinical development program under circumstances where we might have continued such a program. Potential collaborators may have significant discretion in determining the efforts and amount of resources that they dedicate to our collaborations or may be unwilling or unable to fulfill their obligations to us, including their development and commercialization. Potential collaborators may underfund or not commit sufficient resources to the testing, marketing, distribution or other development of our products. They may also not properly maintain or defend our intellectual property rights or they may utilize our proprietary information in such a way as to invite litigation that could jeopardize or potentially invalidate our proprietary information or expose us to potential liability. Potential collaboration partners may have the right to terminate the collaboration on relatively short notice and if they do so or if they fail to perform or satisfy their obligations to us, the development or commercialization of products would be delayed and our ability to realize any potential milestone payments and royalty revenue would be adversely affected.

We face significant competition in our efforts to develop cell therapies for PD, ALS and other neurodegenerative diseases. We face significant competition in our efforts to develop cell therapies and other treatment or procedures to cure or slow the effects of PD, ALS and other neurodegenerative diseases. Among our competitors are companies that are involved in the fetal cell transplant or embryonic stem cell derived cell therapy and companies developing adult stem cells. Other companies are developing traditional chemical compounds, new biological drugs, cloned human proteins and other treatments, which are likely to impact the markets that we intend to target. Many of our competitors possess longer operating histories and greater financial, managerial, scientific and technical resources than we do and some possess greater name recognition and established customer bases. Many also have significantly more experience in preclinical testing, human clinical trials, product manufacturing, the regulatory approval process and marketing and distribution than we do. All of these factors put us at a competitive disadvantage.

If Ramot is unable to obtain patents on the patent applications and technology exclusively licensed to us or if patents are obtained but do not provide meaningful protection, we may not be able to successfully market our proposed

products. We rely upon the patent application as filed by Ramot and the license granted to us by Ramot under the Original Ramot Agreement. We agreed under the Original Ramot Agreement to seek comprehensive patent protection for all inventions licensed to us under the Original Ramot Agreement. However, we cannot be sure that any patents will be issued to Ramot as a result of its domestic or future foreign patent applications or that any issued patents will withstand challenges by others.

We also rely upon unpatented proprietary technology, know-how and trade secrets and seek to protect them through confidentiality agreements with employees, consultants and advisors. If these confidentiality agreements are breached, we may not have adequate remedies for the breach. In addition, others may independently develop or otherwise acquire substantially the same proprietary technology as our technology and trade secrets.

As a result of our reliance on consultants, we may not be able to protect the confidentiality of our technology, which, if disseminated, could negatively impact our plan of operations. We currently have relationships with two academic consultants who are not employed by us, and we may enter into additional relationships of such nature in the future. We have limited control over the activities of these consultants and can expect only limited amounts of their time to be dedicated to our activities. These persons may have consulting, employment or advisory arrangements with other entities that may conflict with or compete with their obligations to us. Our consultants typically sign agreements that provide for confidentiality of our proprietary information and results of studies. However, in connection with every relationship, we may not be able to maintain the confidentiality of our technology, the dissemination of which could hurt our competitive position and results of operations. To the extent that our scientific consultants develop inventions or processes independently that may be applicable to our proposed products, disputes may arise as to the ownership of the proprietary rights to such information, we may expend significant resources in such disputes and we may not win those disputes.

The price of our stock is expected to be volatile. The market price of our common stock has fluctuated significantly in the short time it has been traded, and is likely to continue to be highly volatile. To date, the trading volume in our stock has been relatively low and significant price fluctuations can occur as a result. An active public market for our common stock may not continue to develop or be sustained. If the low trading volumes experienced to date continue, such price fluctuations could occur in the future and the sale price of our common stock could decline significantly. Investors may therefore have difficulty selling their shares.

Your percentage ownership will be diluted by future offerings of our securities, upon the conversion of outstanding convertible promissory notes into shares of our common stock and by options, warrants or shares we grant to management, employees, directors and consultants. In order to meet our financing needs described above, we intend to initiate a significantly larger offering of units comprising shares of our common stock and warrants to purchase shares of our common stock (the "Subsequent Offering"). The precise terms of the Subsequent Offering will be determined by us and potential investors. Assuming the Subsequent Offering is successfully consummated, it will have a significant dilutive effect on your percentage ownership in the Company.

In November 2004 and February 2005, our Board of Directors adopted and ratified the 2004 Global Share Option Plan and the 2005 U.S. Stock Option Plan and Incentive Plan (the "Global Plan" and "U.S. Plan" respectively and the "Plans"

together), and further approved the reservation of 9,143,462 shares of our common stock for issuance under the Plans (the "Shares"). Our shareholders approved the Plans and the issuance of the Shares in a special meeting of shareholders that was held on March 28, 2005. We have made and intend to make further option grants under the Plans or otherwise issue warrants or shares of our common stock to individuals under the Plans. For example, as of November 1, 2006:

- under our Global Plan, we have granted a total of 3,794,423 options with various exercise prices and expiration dates, to officers, directors, services providers, consultants and employees.

- under our U.S. Plan we have issued an additional 1,530,000 shares of restricted stock and options for grants to Scientific Advisory Board members, service providers, consultants and directors.

Such issuances will, if and when made (and if options or warrants are subsequently exercised), dilute your percentage ownership in the Company.

Since October 2004 until November 10, 2006, we have issued 5,228,812 shares to investors, service providers and consultants. When we register the shares or those underlying convertible securities for which we have undertaken to register, they can be sold in the public market. In addition, the shares that we will not register will become eligible for sale into the public market subject to and in accordance with applicable SEC rules and regulations, which provide exemptions from registration requirements. If any of the holders of these shares or convertible securities, or any of our existing stockholders, sell a large number of shares of our common stock, or the public market perceives that existing stockholders might sell shares of common stock, the market price of our common stock could decline significantly.

Investors may face significant restrictions on the resale of our stock due to the way in which stock trades are handled by broker-dealers. Brokers may be less willing to execute transactions in securities subject to "penny stock" rules. This may make it more difficult for investors to dispose of shares of our common stock and cause a decline in the market value of our stock. Because of large broker-dealer spreads, investors may be unable to sell the stock immediately back to the broker-dealer at the same price the broker-dealer sold the stock to the investor. In some cases, the stock may fall quickly in value. Investors may be unable to reap any profit from any sale of the stock, if they can sell it at all. The market among broker-dealers may not be active. Investors in penny stocks often are unable to sell stock back to the dealer that sold them the stock. The mark-ups or commissions charged by the broker-dealers may be greater than any profit a seller may make.

You may experience difficulties in attempting to enforce liabilities based upon U.S. federal securities laws against us and our non-U.S. resident directors and officers. Our principal operations are located through our subsidiary in Israel and our principal assets are located outside the U.S. Our Chief Operating Officer, Chief Financial Officer, and some of our directors are foreign citizens and do not reside in the U.S. It may be difficult for courts in the U.S. to obtain jurisdiction over our foreign assets or these persons and as a result, it may be difficult or impossible for you to enforce judgments rendered against us or our directors or executive officers in U.S. courts. Thus, should any situation arise in the future in which you have a cause of action against these persons or entities, you are at greater risk in investing in our company rather than a domestic company because of greater potential difficulties in bringing lawsuits or, if successful, collecting judgments against these persons or entities as opposed to domestic persons or entities.

Political, economic and military instability in Israel may impede our ability to execute our plan of operations. Our principal operations and the research and development facilities of the scientific team funded by us under the Original Ramot Agreement are located in Israel. Accordingly, political, economic and military conditions in Israel may affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors, including the recent conflict with Hezbollah in the summer of 2006. Since October 2000, terrorist violence in Israel increased significantly and until they were recently revived, negotiations between Israel and Palestinian representatives had effectively ceased. Ongoing or revived hostilities or other factors related to Israel could harm our operations and research and development process and could impede on our ability to execute our plan of operations.

Item 3. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our 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 are 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 were no changes in our internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

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

On April 14, 2006, we issued 200,000 shares of our common stock to Edward F. DePaulis as consideration for services provided by Mr. DePaulis to the company.

On August 17, 2006, we issued 100,000 shares of our common stock to First Equity Group, Inc. as consideration for services provided by First Equity Group, Inc. to the company.

On October 3, 2006, we issued a warrant to Double U Master Fund L.P. to purchase up to 630,000 shares of our common stock at an exercise price of $0.30 per share. The warrant expires on October 3, 2009. We previously issued a note to the holder dated as of February 1, 2006, in the original principal amount of $189,000. In consideration of Double U Master Fund's agreement to extend the maturity date of the note and to waive any and all interest or fees on, or default under, such note, we issued the warrant to Double U Master Fund.

On October 5, 2006, we issued 231,851 shares of our common stock to Thomas B. Rosedale for approximately $83,265 in legal services rendered by Mr. Rosedale

and BRL Law Group LLC.

On October 18, 2006, we issued 240,000 shares of our common stock to Dr. Holly G. Atkinson as part of the agreement between Dr. Atkinson and the company for business and development services.

The issuance of the securities described above was effected without registration in reliance on Section 4(2) of the Securities Act of 1933, as amended, as a sale by us not involving a public offering.

Item 4. Submission of Matters to a Vote of Security Holders

At our 2006 Annual Meeting of Shareholders (the "Annual Meeting") held on September 20, 2006, the following matters were acted upon by our shareholders:

1. The election of three directors until the annual meeting of shareholders indicated below;

2. The approval of an amendment to our Articles of Incorporation increasing the number of authorized shares of common stock from 200,000,000 to 440,000,000;

3. The authorization of our Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the company and its shareholders, to amend our Articles of Incorporation to eliminate the class of preferred stock and all authorized shares of preferred stock; and

4. The ratification of the appointment of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, as our independent registered public accounting firm for the current fiscal year ending December 31, 2006.

The number of shares of common stock issued, outstanding and eligible to vote as of the record date of July 21, 2006 was 23,429,961. The results of the voting on each of the matters presented to shareholders at the Annual Meeting are set forth below:

	VOTES FOR	VOTES WITHHELD	VOTES AGAINST	ABS
1. Election of three directors:				
Dr. Irit Arbel (until the 2007 annual meeting of shareholders)	13,353,130	NA	0	
Michael Greenfield (until the 2008 annual meeting of shareholders)	13,353,130	NA	0	
Dr. Robert Shorr (until the 2009 annual meeting of shareholders)	13,353,130	NA	0	
2. Approval of Amendment to Articles of Incorporation to increase authorized shares of common stock.	13,341,518	NA	11,511	
3. Authorization of Board of Directors, in its				

discretion, to amend the Articles of Incorporation to eliminate the class of preferred stock.	13,225,633	NA	0
4. Ratification of Kost Forer Gabbay & Kasierer.	13,353,130	NA	0

Item 5. Other Information

During the quarter to which this report relates, we made no material changes to the procedures by which shareholders 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, 2006

By: /s/ Yoram Drucker

Name: Yoram Drucker
Title: Chief Operating Officer
(Principal Executive Officer)

November 14, 2006

By: /s/ David Stolick

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

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Amendment to the Articles of Incorporation of the Registrant.
10.1	Convertible Promissory Note, dated September 14, 2006, issued by the Registrant to Vivian Shaltiel is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 18, 2006 (File No. 333-61610).
10.2	Common Stock Purchase Warrant, dated as of October 3, 2006, issued by

the Registrant to Double U Master Fund L.P.

31.1 Certification of the Chief Operating Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

32.1 Certification of the Chief Operating 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.