BRAINSTORM CELL THERAPEUTICS INC
Form 10KSB
March 30, 2007

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED _____

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

FOR THE TRANSITION PERIOD FROM APRIL 1, 2006 TO DECEMBER 31, 2006

COMMISSION FILE NUMBER 333-61610

BRAINSTORM CELL THERAPEUTICS INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	20-8133057
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

110 East 59th Street
New York, NY 10022
212-557-9000

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

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

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $0.00005 par value

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 Noo

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form,

and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB x.

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

The registrant did not have any revenues for the fiscal year ended December 31, 2006.

As of March 16, 2007, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $8,778,725, based on the closing price of $0.47 as reported on the OTC Bulletin Board operated by the NASD.

As of March 16, 2007, the number of shares outstanding of the registrant's common stock, $0.00005 par value per share, was 24,378,139.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (Check one): Yes o No x.

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PART I

SPECIAL NOTE

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This transition report contains numerous statements, descriptions, forecasts and projections, regarding Brainstorm Cell Therapeutics Inc. and its potential future business operations and performance. These statements, descriptions, forecasts and projections constitute "forward-looking statements," and as such involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance and achievements to be materially different from any results, levels of activity, performance and achievements expressed or implied by any such "forward-looking statements." Some of these are described under "Risk Factors" in this transition report. In some cases you can identify such "forward-looking statements" by the use of words like "may," "will," "should," "could," "expect "hopes," "anticipates," "believes," "intends," "plans," "estimates," "predicts," "likely," "potential," or "continue" or the 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 achievementsIt is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we may not inform you if they do and we undertake no obligation to do so. We caution investors that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, prospective investors should carefully consider the information set forth under the caption "Risk Factors" in addition to the other information set forth herein and elsewhere in our other public filings with the Securities and Exchange Commission.

Item 1. Description of Business.

Company Overview

Brainstorm Cell Therapeutics Inc. ("Brainstorm" or the "Company") is an emerging company developing stem cell therapeutic products based on breakthrough technologies enabling the in vitro differentiation of bone marrow stem cells to neural-like cells. We aim to become a leader in adult stem cell transplantation for neurodegenerative diseases. Our focus is on utilizing the patient's own bone marrow stem cells to generate neuron-like cells that may provide an effective treatment initially for Parkinson's Disease (PD), ALS, and thereafter for Multiple Sclerosis and other neurodegenerative disorders.

Our core technology, NurOwn™, was developed through a collaboration between prominent neurologist, Prof. Eldad Melamed, Head of Neurology of the Rabin Medical Center and member of the Scientific Committee of the Michael J. Fox Foundation for Parkinson's Research, and expert cell biologist Dr. Daniel Offen, of the Felsenstein Medical Research Center of Tel-Aviv University.

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

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

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

Brainstorm holds exclusive worldwide rights to commercialize the NurOwn™ technology, through a licensing agreement with Ramot at Tel Aviv University Ltd. (“Ramot”), the technology transfer company of Tel Aviv University. The agreement also provides for further research, funded by Brainstorm, to be performed by Prof. Melamed, Dr. Offen and members of their research team at the Felsenstein Medical Research Center. The results of this research are licensed to us under the terms of the license agreement. Thus, although a development stage company, we have access to the research results of an R&D team comprised of approximately 12 experts in the technology field, including molecular and cell biologists, pharmacologists and animal model experts.

On January 17, 2007, the Company entered into a Collaboration Agreement, with Fundacion para la Investigacion Medica Aplicada ("FIMA"). Pursuant to the Collaboration Agreement, the Company and FIMA will collaborate on pre-clinical safety trials of an adult stem cell therapy in monkeys in Pamplona, Spain. Depending on the outcome of these pre-clinical safety trials and upon agreement between the Company and FIMA, the parties will conduct human clinical trials of the stem cell therapy.

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

· Developing the cell differentiation process according to Food and Drug Administration (FDA) and the European agency for evaluation of medical product (EMEA) guidelines;

· Demonstrating safety and efficacy first in animals and then in patients; and

· Setting up centralized facilities to provide NurOwn™ therapeutic products and services for transplantation in patients.

We intend to enter into strategic partnerships, in addition to the partnership described above with FIMA, as we progress towards advanced clinical development and commercialization.

History

The Company was incorporated under the laws of the State of Washington on September 22, 2000, under the name Wizbang Technologies, Inc. and acquired the right to market and sell a digital data recorder product line in certain states in the U.S. Subsequently, the Company changed its name to Golden Hand Resources Inc. On July 8, 2004, the Company entered into the licensing agreement with Ramot to acquire certain stem cell technology and decided to discontinue all activities related to the sales of digital data recorder product. On November 22, 2004, the Company changed its name from Golden Hand Resources Inc. to Brainstorm Cell Therapeutics Inc. to better reflect its new line of business in development of novel cell therapies for neurodegenerative diseases. On October 25, 2004, the Company opened its wholly-owned subsidiary, Brainstorm Cell Therapeutics Ltd. in Israel. On December 18, 2006, the stockholders of the Company approved a proposal to change the state of incorporation of the Company from the State of Washington to the State of Delaware. The reincorporation was completed on December 21, 2006 through the merger of the Company into a newly formed, wholly-owned Delaware subsidiary of Brainstorm, also named Brainstorm Cell Therapeutics Inc.

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 (i.e., non-embryonic 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.

Neurodegenerative Diseases

Studies of neurodegenerative diseases suggest that symptoms that arise in afflicted individuals are secondary to defects in neuron cell function and neural circuitry and, to date, cannot be treated effectively with systemic drug delivery. Consequently, alternative approaches for treating neurodegenerative diseases have been attempted, such as transplantation of cells capable of replacing or supplementing the function of damaged neurons. For such cell replacement therapy to work, implanted cells must survive and integrate, both functionally and structurally, within the damaged tissue.

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, approximately 1.5 million of whom 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 annually and the market is expected to grow to approximately $2.3 billion annually 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 worldwide.

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, 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:

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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.

Brainstorm's Technology

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:

NurOwn™ 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.

NurOwn™ 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 GDNF 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 NurOwn™ 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 NurOwn™ therapeutic products and services for transplantation in patients.

We intend to enter into additional 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 NurOwn™ 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.

Business Model

Our objective is to have the proprietary procedure adopted by an expanding user base of medical centers, throughout the U.S. and Europe, for the treatment of PD, ALS and later MS and other neurodegenerative diseases. Our intended procedure for the replacement of the degenerated neurons with healthy functional cells derived by differentiation of bone marrow, may be among the earliest successes of stem cell technologies and could be the starting point for a massive market potential in the area of autologous transplantation. A central laboratory would be responsible for processing bone marrow extracted from patients, enabling the production of the cells required for the transplantation. Transplantation would be carried out by the medical center, with revenues shared with us on an agreed basis.

We will consider seeking cooperation with a major strategic marketing partner, having established distribution channels and the ability to gain relatively fast access to the target markets.

Our approach will be optimized by working with a major partner. We believe there is a substantial market opportunity and cooperation with a strategic partner would facilitate a more rapid and broad market penetration, by leveraging the partner’s market credibility and the proven ability to provide service and support across a large and geographically spread target market.

Potential strategic partners include:

- Private Medical Center Chains - interested in expanding their service offerings and being associated with an innovative technology, thereby enhancing their professional standing and revenue potential; and
- Major Pharmaceutical and/or Medical Device Companies - seeking new product opportunities and/or wishing to maintain interest in the market, which may shift away from drugs towards surgical treatment.

We cannot assure you that we will succeed in finding strategic partners 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.

Intellectual Property

We have filed the following patent and trademark applications:

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

- The NurOwn™ technology for isolating oligodendrocyte-like cells and population comprising thing for the treatment in CNS diseases covered by PCT patent application number PCT/IL/2006/000140 filed on December 7, 2006.

- We have filed for a trademark on NurOwn™.

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 NurOwn™ 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.

As 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 we have 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 we 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).

Government Regulations and Supervision

Once fully developed, we intend to market our bone marrow derived differentiated neural-like cell products, NurOwn™, for transplantation in patients by neurosurgeons in medical facilities in the U.S., Europe, Japan and the Pacific Rim. Accordingly, we believe our research and development activities and the manufacturing and marketing of our technology are subject to the laws and regulations of governmental authorities in the United States and other countries in which our technology and products will be marketed. Specifically, in the U.S., the FDA, among other agencies, regulates new biological product approvals (BLA) to establish safety and efficacy, as well as appropriate production of these products. Governments in other countries have similar requirements for testing and marketing.

As we are currently only in the developmental stage of our technology and NurOwn™ cell product, we are going to begin the process of seeking regulatory approval from the FDA and other regulatory agencies. We retained expert regulatory consultants to assist us in our approach to the FDA in our efforts to achieve regulatory approval and we are going to retain such expert regulatory consultant in Spain to assist the Company in its approach to the EMEA in order to get regulatory approval in Europe.

Regulatory Process in the United States

Regulatory approval of new biological products is a lengthy procedure leading from development of a new product through pre-clinical animal testing and clinical studies in humans. This process takes a number of years, is regulated by the FDA and requires the expenditure of significant resources. There can be no assurance that our technology will ultimately receive regulatory approval. We summarize below our understanding of the regulatory approval requirements that may be applicable to us if we begin the process of seeking an approval from the FDA.

The Federal Food, Drug, and Cosmetic Act and other federal statutes and regulations govern or influence the research, testing, manufacture, safety, labeling, storage, record-keeping, approval, distribution, use, reporting, advertising and promotion of our future products. Non-compliance with applicable requirements can result in civil penalties, recall, injunction or seizure of products, refusal of the government to approve or clear product approval applications or to allow us to enter into government supply contracts, withdrawal of previously approved applications and criminal prosecution.

The FDA has developed and is continuously updating the requirements with respect to cell and gene therapy products and has issued documents concerning the regulation of cellular and tissue-based products, as new biological products. In order to file for a BLA, we will be required to develop our stem cell product in accordance with the regulatory guidelines for cell therapy and manufacture the cell products under GMP. GMP, or Good Manufacturing Practice, is a standard set of guidelines for pharmaceutical and bio-pharmaceutical production operations and facilities by the FDA and other health regulatory authorities, which apply caution in allowing any biologically active material to be administered into the human body.

Although there can be no assurance that the FDA will not choose to change its regulations, current regulation proposes that cell products which are manipulated, allogeneic, or as in our case, autologous but intended for a different purpose than the natural source cells (NurOwn™ are bone marrow derived and are intended for brain transplantation) must be regulated through a "tiered approach intended to regulate human cellular and tissue based products only to the extent necessary to protect public health". Thus the FDA requires: (i) preclinical laboratory and animal testing; (ii) submission of an Investigational New Drug (IND) exemption which must be effective prior to the initiation of human clinical studies; (iii) adequate and well-controlled clinical trials to establish the safety and efficacy of the product for its intended use; (iv) submission to the FDA of a BLA; and (v) review and approval of the BLA as well as inspections of the manufacturing facility for GMP compliance, prior to commercial marketing of the product.

Generally, in seeking an approval from the FDA for sale of a new medical product, an applicant must submit proof of safety and efficacy. Such proof entails extensive pre-clinical studies in the lab and in animals and, if approved by the agency, in humans. The testing, preparation of necessary applications and processing of those applications by the FDA is expensive and may take several years to complete. There can be no assurance that the FDA will act favorably or in a timely manner in reviewing submitted applications, and an applicant may encounter significant difficulties or costs in its efforts to obtain FDA approvals. This, in turn, could delay or preclude the applicant from marketing any products it may develop. The FDA may also require post-marketing testing and surveillance of approved products, or place other conditions on the approvals. These requirements could cause it to be more difficult or expensive to sell the products, and could therefore restrict the commercial applications of such products. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. For patented technologies, delays imposed by the governmental approval process may materially reduce the period during which an applicant will have the exclusive right to exploit such technologies.

In order to conduct clinical trials of the proposed product, the manufacturer or distributor of the product will have to file an IND submission with the FDA for its approval to commencing human clinical trials. The submission must be supported by data, typically including the results of pre-clinical and laboratory testing. Following submission of the IND, the FDA has 30 days to review the application and raise safety and other clinical trial issues. If an applicant is not notified of objections within that period, clinical trials may be initiated at a specified number of investigational sites with the number of patients, as applied. Clinical trials which are to be conducted in accordance with good clinical practice (GCP) guidelines are typically conducted in three sequential phases. Phase I represents the initial administration of the drug or biologic to a small group of humans, either healthy volunteers or patients, to test for safety and other relevant factors. Phase II involves studies in a small number of patients to explore the efficacy of the product, to ascertain dose tolerance and the optimal dose range and to gather additional data relating to safety and potential adverse affects. Once an investigational drug is found to have some efficacy and an acceptable safety profile in the targeted patient population, multi-center Phase III studies are initiated to establish safety and efficacy in an expanded patient population and multiple clinical study sites. The FDA reviews both the clinical plans and the results of the trials and may request an applicant to discontinue the trials at any time if there are significant safety issues.

In addition, the manufacturing of our cell therapy, whether it is performed by us or by a contract manufacturer, will be required to be registered as a biologic product manufacturer with the FDA product approval process. The FDA will inspect us on a routine basis for compliance with the GMP and Good Tissue Practice (GTP) guidelines for cell therapy products. The regulations of the FDA would require that we, and any contract manufacturer, design, manufacture and service products and maintain documents in the prescribed manner with respect to manufacturing, testing, distribution, storage, design control and service activities. The FDA may prohibit a company from promoting an approved product for unapproved applications and reviews product labeling for accuracy.

Competition

We face significant competition in our efforts to develop our products and services: (i) cell therapies competing with NurOwn™ and its applications and (ii) other treatments or procedures to cure or slow the effects of PD and other neurodegenerative diseases. There are a number of companies developing cell therapies. Among them, are companies that are involved in the controversial fetal cell transplant or ESC-derived cell therapy, as well as 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, which we intend to target. We believe that as an autologous bone marrow derived product that has shown proof of concept in vitro and in animal studies, NurOwn™ has a first mover advantage in the adult stem cell space and that such space has competitive advantages over the fetal cell or ESC-derived cell space as it has a long safety record and does not have the same ethical limitations

Employees

As of March 16, 2007, we have 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 ten 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.

Risk Factors

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.

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. As of December 31, 2006, we owe Ramot an aggregate amount of $367,365 in overdue payments and patent fees; we are negotiating with Ramot to obtain a deferral of these payments until we raise additional capital. In addition, on March 31, 2006, the Company entered into an Amendment Agreement (the "Amendment") with Ramot and its designees relating to warrants to purchase an aggregate of 12,800,845 shares of the Company's common stock at a purchase price of $0.01 per share issued to Ramot and its designees in connection with the Original Ramot Agreement. The Amendment extended the date by which the shares underlying the warrants were to be registered by the Company for resale to no later than December 31, 2006. We have not yet registered the shares underlying the warrants for resale; therefore, Ramot may elect to terminate the license.

In order to execute our business plan, we will need to raise additional capital in the coming month. If we are unable to raise additional capital on favorable terms and in a timely manner, we will not be able to execute our business plan and we could be forced to restrict or cease our operations. We will need to raise additional funds within the coming month 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 financings 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 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, 2005 or March 31, 2006 or for the transition period from April 1, 2006 to December 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 originally incorporated 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.

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 NurOwn™ 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 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 March 16, 2007:

- under our Global Plan, we have granted and not canceled a total of 3,861,778 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.

As of March 16, 2007, we have issued convertible notes in an aggregate total of $1,575,000 to various investors. Each holder of a convertible note may choose to convert all or part of the outstanding principal and interest amount of such holder's note into shares of our common stock on or prior to the maturity date of the respective note. The maximum number of shares, in the aggregate, that are issuable pursuant to outstanding convertible notes is 75,000,000.

As of March 16, 2007, we have issued 5,405,139 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 our 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.

The trading price of our common stock entails additional regulatory requirements, which may negatively affect such trading price. Our common stock is currently listed on the OTC Bulletin Board, an over-the-counter electronic quotation service, which stock currently trades below $5.00 per share. We anticipate the trading price of our common stock will continue to be below $5.00 per share. As a result of this price level, trading in our common stock would be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These rules require additional disclosure by broker-dealers in connection with any trades generally involving any non-NASDAQ equity security that has a market price of less than $5.00 per share, subject to certain exceptions. Such rules require the delivery, before any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith, and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). For these types of transactions, the broker-dealer must determine the suitability of the penny stock for the purchaser and receive the purchaser's written consent to the transaction before sale. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our common stock. As a consequence, the market liquidity of our common stock could be severely affected or limited by these regulatory requirements.

Item 2. Description of Property.

The address of our principal executive offices is 110 East 59th Street, New York, NY 10022, where in consideration for $2,500 per month we have a license to use office space and receive general office services until July 31, 2007.

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 $4,250) per month during the first 12 months of the lease; (ii) NIS 19,527 (approximately $4,620) per month during the following 24 months of the lease; (iii) NIS 22,317 (approximately $5,280) per month during the First Option period; and (iv) NIS 23,712 (approximately $5,610) 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.

Item 3. Legal Proceedings.

We are not a party to any pending litigation and, to our knowledge, none is contemplated or threatened.

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

At a special meeting of shareholders held on December 18, 2006, our shareholders approved a proposal to reincorporate the Company from the State of Washington to the State of Delaware by merging the Company with and into a newly formed, wholly owned Delaware subsidiary. The reincorporation was completed on December 21, 2006.

The number of shares of common stock issued, outstanding and eligible to vote as of the record date of November 8, 2006 was 24,201,812. The result of the voting on the matter presented to the shareholders at the special meeting is set forth below:

	VOTES FOR	VOTES WITHHELD	VOTES AGAINST
Approval to reincorporate the Company in the State of Delaware	17,191,105	--	--

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market Information

Our common stock is currently traded on the OTC Bulletin Board operated by the NASD (OTC BB) under the symbol “BCLI”.

The following table sets forth for the periods indicated the high and low sales prices for our common stock.

Quarter Ended	High	Low
December 31, 2006	$0.33	$0.24
September 30, 2006	$0.49	$0.21
June 30, 2006	$0.55	$0.35
March 31, 2006	$0.66	$0.40
December 31, 2005	$0.86	$0.43
September 30, 2005	$1.19	$0.63
June 30, 2005	$2.90	$0.80
March 31, 2005	$3.50	$1.80

On March 16, 2007, the closing price for our common stock as reported by the quotation service operated by the OTC Bulletin Board was $0.47.

As of March 16, 2007, there were 100 holders of record of our common stock. As of such date, 24,378,139 shares of our common stock were issued and outstanding.

Transfer Agent

First American Stock Transfer, 706 E. Bell Road, Suite 202, Phoenix, Arizona 85022 (Telephone: (602) 485-1346; Facsimile: (602) 788-0423) is the registrar and transfer agent for our common shares.

Dividend Policy

We have not paid any cash dividends on our common stock and have no present intention of paying any dividends on the shares of our common stock. We have not had any revenues for the past two fiscal years. Our current policy is to retain earnings, if any, for use in our operations and in the development of our business. Our future dividend policy will be determined from time to time by our board of directors.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans and the securities authorized for issuance thereunder is set forth in Item 11 below.

Recent Sales of Unregistered Securities

On March 14, 2007, in connection with a loan for an aggregate principal amount of $50,000 that we have undertaken, we issued to Meir Rosenbaum a fully exercisable warrant to purchase 50,000 shares of our common stock at an exercise price of $0.45, which warrant has a term of three (3) years and has certain piggy-back registration rights.

On March 21, 2007, in consideration for certain legal services rendered by BRL Law Group LLC in an aggregate amount of $29,435, we issued to Thomas Rosedale 108,511 shares of our common stock, which shares have certain piggy-back registration rights.

On March 21, 2007, in consideration for Seth Farbman's and Shai Stern's agreement to waive the outstanding obligations, in the amount of $14,688, owed to them for financial printing services rendered, we issued to each of Mr. Farbman and Mr. Stern 40,000 shares of our common stock, for an aggregate total of 80,000 shares, which shares have certain piggy-back registration rights.

On March 21, 2007, in consideration for certain services rendered by Mark Zegal, we issued to Mr. Zegal a fully-vested option to purchase 150,000 shares of our common stock at a purchase price of $0.47, which option has a term of five (5) years and has certain piggy-back registration rights.

On March 21, 2007, in consideration for certain services rendered by Ernest Muller, we issued to Mr. Muller a fully-vested option to purchase 50,000 shares of our common stock at a purchase price of $0.47, which option has a term of five (5) years and has certain piggy-back registration rights.

On March 21, 2007, in consideration for certain services rendered by Bernard Dichek, we issued to Mr. Dichek a fully-vested option to purchase 50,000 shares of our common stock at a purchase price of $0.15, which option has a term of three (3) years and has certain piggy-back registration rights.

On March 21, 2007, in consideration for Elchondor Aran's agreement to waive the outstanding obligations, in the amount of 20,000 New Israeli Shekel, owed to him for certain services rendered, we issued to Mr. Aran an option to purchase 15,000 shares of our common stock at a purchase price of $0.15, which option has a term of five (5) years and has certain piggy-back registration rights. Such option will fully vest on March 21, 2008.

None of these transactions involved any underwriters, underwriting discounts or commissions and we believe that such transactions were exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) thereof and Regulation D promulgated thereunder.

Item 6. Plan of Operation.

You should read the following plan of operation together with the consolidated audited financial statements and the notes to our consolidated audited financial statements included elsewhere in this filing prepared in accordance with accounting principles generally accepted in the U.S. This section contains statements that are forward-looking. These statements are based on expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date of issue. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of issue.

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 production process for clinical studies in accordance with health authorities' guidelines. To reach this goal we intend to optimize methods for the stem cell growth and differentiation in specialized growth media, as well as methods for freezing, thawing, storing and transporting of 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 large efficacy studies in animal models of PD (such as mice and rats) in order to further evaluate the engraftment, survival and efficacy of our astrocyte-like cell in these models;

· To conduct safety and efficacy studies in primates-monkeys;

· To conduct a full tumorgenicity study in animals;

- To generate process SOPs, protocols and reports for the file submission;

- To finalize analytical methodology and product specifications to be used as release criteria of the final cell product for clinical trials in humans;

- To set up a quality control system for the processing of our cells; 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 astrocyte-like differentiated cell implants in humans. We intend to crystallize our development plans with the assistance of our scientific advisory board members and external regulatory consultants who are experts 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 December 31, 2006, we had $134,015 in total current assets and $2,497,344 in total current liabilities and on March 16, 2007, we had approximately $18,000 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.

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

In the past, we have received loans from various investors. In connection with such loans, we have issued convertible notes. As of March 16, 2007, we owed certain investors $739,000 in overdue payments under certain convertible notes. We are currently in discussions with such investors to obtain a deferral of these payments until we raise additional capital.

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 December 31, 2006, the Company owed Ramot $367,365 in (i) overdue payments under the Amended Research and License Agreement and (ii) patent fees. 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 December 31, 2007, we estimate that our research and development costs will be approximately $3,000,000, excluding compensation expenses related to options and warrants. We intend to spend our research and development costs on the development of our core NurOwn™ technology by developing the cell differentiation process according to FDA and EMEA 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 December 31, 2007, we estimate that our general and administrative expenses will be approximately $3,000,000 excluding compensation expenses related to options and warrants. 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 December 31, 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™ 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; and
- 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 December 31, 2006, we had purchased laboratory equipment and furniture for a total sum of approximately $190,000 and assuming we complete additional financings, we intend to purchase certain additional laboratory equipment at an estimated cost of $100,000.

Employees

We currently have ten scientific and administrative employees. Assuming we consummate our intended financings, we expect to increase our staff significantly in the near future.

Off Balance Sheet Arrangements

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

Item 7. Financial Statements.

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

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

IN U.S. DOLLARS

INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders of

BRAINSTORM CELL THERAPEUTICS INC.
(A development stage company)

We have audited the accompanying consolidated balance sheet of Brainstorm Cell Therapeutics Inc. ("the Company") (a development stage company) and its subsidiary as of December 31, 2006, and the related consolidated statements of operations, statements of changes in stockholders' equity (deficiency) and the consolidated statements of cash flows for the nine months ended December 31, 2006, for the year ended March 31, 2006 and for the period from September 22, 2000 (inception) through December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the period from September 22, 2000 (inception) through March 31, 2004, were audited by other auditors whose report dated May 26, 2004 expressed an unqualified opinion on those statements. The consolidated financial statements for the period from September 22, 2000 (inception) through March 31, 2004 included a net loss of $ 162,687. Our opinion on the consolidated statements of operations, changes in stockholders' equity and cash flows for the period from September 22, 2000 (inception) through December 31, 2006, insofar as it relates to amounts for prior periods through March 31, 2004, is based solely on the report of other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of and December 31, 2006, and the consolidated results of their operations and cash flows for the nine months ended December 31, 2006, for the year ended March 31, 2006 and for the period from September 22, 2000 (inception) through December 31, 2006, in conformity with U.S generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2006, the Company adopted Financial Accounting Standard Board Statement No. 123R, "Share-Based Payment".

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

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

Tel-Aviv, Israel
March 30, 2007

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

CONSOLIDATED BALANCE SHEETS

In U.S. dollars (except share data)

	December 31 2006	March 31 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	60,430	290,219
Restricted cash	31,953	28,939
Accounts receivable and prepaid expenses (Note 5)	41,632	45,451
Total current assets	134,015	364,609
LONG-TERM INVESTMENTS:		
Prepaid expenses	7,802	7,067
Severance pay fund	37,840	19,093
	45,642	26,160
PROPERTY AND EQUIPMENT, NET (Note 6)	491,045	411,454
OTHER ASSETS, NET (Notes 8, 9)	51,664	57,590
Total assets	722,366	859,813
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Trade payables	720,742	200,624
Other accounts payable and accrued expenses (Note 7)	651,076	370,445
Short-term convertible loans (Note 8)	936,526	367,292
Short-term loans (Note 9)	189,000	128,559
Total current liabilities	2,497,344	1,066,920
OPTIONS AND WARRANTS (Note 8)	-	7,679,009
ACCRUED SEVERANCE PAY	40,772	24,563
Total liabilities	2,538,116	8,770,492
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' DEFICIENCY:		

Stock capital: (Note 11)		
Common stock of $ 0.00005 par value - Authorized: 800,000,000 and 200,000,000 shares at December 31 and March 31, 2006, respectively; Issued and outstanding: 24,201,812 and 22,854,587 shares at December 31 and March 31, 2006, respectively	1,210	1,144
Additional paid-in capital	24,426,756	15,802,847
Deferred stock-based compensation	-	(1,395,439)
Deficit accumulated during the development stage	(26,243,716)	(22,319,231)
Total stockholders' deficiency	(1,815,750)	(7,910,679)
Total liabilities and stockholders' deficiency	722,366	859,813

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

March 30, 2007

Date of approval of the financial statements	David Stolick Chief Financial Officer	Yoram Drucker Principal Executive Officer

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

CONSOLIDATED STATEMENTS OF OPERATIONS

In U.S. dollars (except share data)

	Nine months ended December 31,		Year ended March 31,	Period from September 22, 2000 (inception date) through December 31,
	2006	2005 Unaudited	2006	2006
Operating costs and expenses:				
Research and development	872,939	770,766	970,891	2,629,128
Research and development expenses (income) related to stocks, warrants and options granted to employees and service providers	(131,016)	71,827	(123,944)	15,258,397
General and administrative	809,063	710,183	817,366	1,883,227
General and administrative related to stocks, warrants and options granted to employees and service providers	1,330,574	1,016,691	1,636,692	5,008,594
Total operating costs and expenses	2,881,560	2,569,467	3,301,005	24,779,346
Financial income (expenses), net	(1,025,709)	(2,223)	14,689	(907,437)
	(3,907,269)	(2,571,690)	(3,286,316)	(25,686,783)
Taxes on income (Note 12)	17,216	22,854	30,433	53,118
Loss from continuing operations	(3,924,485)	(2,594,544)	(3,316,749)	(25,739,901)
Net loss from discontinued operations	-	-	-	(163,971)
Net loss	(3,924,485)	(2,594,544)	(3,316,749)	(25,903,872)
Basic and diluted net loss per stock from continuing operations	(0.17)	(0.119)	(0.15)	
Weighted average number of stocks outstanding used in computing basic and diluted net loss per stock	23,717,360	21,797,624	22,011,370	

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

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

In U.S. dollars (except share data)

	Common stock		Additional paid-in capital	Deferred stock-based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
	Number	Amount				
Balance as of September 22, 2000 (date of inception)	-	-	-	-	-	-
Stock issued on September 22, 2000 for cash at $ 0.00188 per stock	8,500,000	850	15,150	-	-	16,000
Stock issued on March 31, 2001 for cash at $ 0.0375 per stock	1,600,000	160	59,840	-	-	60,000
Contribution of capital	-	-	7,500	-	-	7,500
Net loss	-	-	-	-	(17,026)	(17,026)
Balance as of March 31, 2001	10,100,000	1,010	82,490	-	(17,026)	66,474
Contribution of capital	-	-	11,250	-	-	11,250
Net loss	-	-	-	-	(25,560)	(25,560)
Balance as of March 31, 2002	10,100,000	1,010	93,740	-	(42,586)	52,164
Contribution of capital	-	-	15,000	-	-	15,000
Net loss	-	-	-	-	(46,806)	(46,806)
Balance as of March 31, 2003	10,100,000	1,010	108,740	-	(89,392)	20,358
2-for-1 stock split	10,100,000	-	-	-	-	-
Stock issued on August 31, 2003 to purchase mineral option at $ 0.065 per stock	100,000	5	6,495	-	-	6,500
Cancellation of stocks granted to Company's President	(10,062,000)	(503)	503	-	-	-
Contribution of capital	-	-	15,000	-	-	15,000

Net loss	-	-	-	-	(73,295)	(73,295)
Balance as of March 31, 2004	10,238,000	512	130,738	-	(162,687)	(31,437)
Stock issued on June 24, 2004 for private placement at $ 0.01 per stock, net of $ 25,000 issuance expenses (Note 11c(1)(a))	8,510,000	426	59,749	-	-	60,175
Contribution capital (Note 11b)	-	-	7,500	-	-	7,500
Stock issued in 2004 for private placement at $ 0.75 per unit (Note 11c(1)(a))	1,894,808	95	1,418,042	-	-	1,418,137
Cancellation of stocks 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 stocks and options granted to employees (Note 11c(2))	-	-	-	584,024	-	584,024
Compensation related to stocks and options granted to service providers (Note 11c(3)(c))	2,025,000	101	17,505,747	-	-	17,505,848
Net loss	-	-	-	-	(18,839,795)	(18,839,795)
Balance as of March 31, 2005	20,867,808	1,044	25,100,625	(5,394,735)	(19,002,482)	704,452

The accompanying notes are an integral part of the consolidated financial statements.
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BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY
(A development stage company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

In U.S. dollars (except share data)

	Common stock		Additional paid-in capital	Deferred stock-based compensation	Deficit accumulated during the development stage	Total stockholders' equity (deficiency)
	Number	Amount				
Balance as of March 31, 2005	20,867,808	1,044	25,100,625	(5,394,735)	(19,002,482)	704,452
Stock issued on May 12, 2005 for private placement at $ 0.8 per stock (Note 11c(1)(d))	186,875	9	149,491	-	-	149,500
Stock issued on July 27, 2005 for private placement at $ 0.6 per stock (Note 11c(1)(e))	165,000	8	98,992	-	-	99,000
Stock issued on September 30, 2005 for private placement at $0.8 per share(Note 11c(1)(f))	312,500	16	224,984	-	-	225,000
Stock issued on December 07, 2005 for private placement at $0.8 per share (Note 11c(1)(f))	187,500	10	134,990	-	-	135,000
Forfeiture of options granted to employees	-	-	(3,363,296)	3,363,296	-	-
Deferred stock-based compensation related to stocks and options granted to directors and employees	200,000	10	486,490	(486,500)	-	-
Amortization of deferred stock-based compensation related to options and stocks granted to employees and directors (Note 11c(2))	-	-	51,047	1,122,500	-	1,173,547
Stock-based compensation related to	934,904	47	662,069	-	-	662,116

options and stocks granted to service providers (Note 11c(3)(c))						
Reclassification due to application of EITF 00-19 (Note 8b)			(7,906,289)			(7,906,289)
Beneficial conversion feature related to a convertible bridge loan (Note 8a)	-	-	163,744	-	-	163,744
Net loss	-	-	-	-	(3,316,749)	(3,316,749)
Balance as of March 31, 2006	22,854,587	1,144	15,802,847	(1,395,439)	(22,319,231)	(7,910,679)
Elimination of deferred stock compensation due to implementation of FAS 123(R)	-	-	(1,395,439)	1,395,439	-	-
Stock-based compensation related to stocks and options granted to directors and employees	200,000	10	1,167,737	-	-	1,167,747
Reclassification due to application of EITF 00-19 (Note 8f)	-	-	7,190,829	-	-	7,190,829
Stock-based compensation related to options and stocks granted to service providers (Note 11c)	1,147,225	56	453,698	-	-	453,754
Warrants issued to convertible note holder (Note 8e)	-	-	11,253	-	-	11,253
Warrants issued to loan holder (Note 9)	-	-	109,620	-	-	109,620
Beneficial conversion feature related to convertible bridge loans (Note 8)	-	-	1,086,211	-	-	1,086,211
Net loss	-	-	-	-	(3,924,485)	(3,924,485)
Balance as of December 31, 2006	24,201,812	1,210	24,426,756	-	(26,243,716)	(1,815,750)

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

	Nine months ended December 31,		Year ended March 31,	Period from September 22, 2000 (inception date) through December 31,
	2006	2005 Unaudited	2006	2006
Cash flows from operating activities:				
Net loss	(3,924,485)	(2,594,544)	(3,316,749)	(26,243,716)
Less - loss for the period from discontinued operations		-	-	163,971
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	147,732	39,486	57,408	205,385
Accrued severance pay, net	(2,538)	-	5,470	2,932
Accrued interest on loans	65,901	-	13,210	79,111
Amortization of discount on short-term loans	799,985	-	50,765	850,750
Change in fair value of options and warrants	(488,180)	-	(306,660)	(794,840)
Expenses related to stocks and options granted to service providers	574,627	256,040	631,216	18,687,491
Amortization of deferred stock-based compensation related to options granted to employees	1,167,747	832,476	1,173,547	2,925,318
Decrease (increase) in accounts receivable and prepaid expenses	3,819	61,730	37,525	(41,478)
Increase in trade payables	520,118	170,286	162,774	720,742
Increase in other accounts payable and accrued expenses	280,631	389,399	239,213	645,926
Erosion of restricted cash		1,805	-	
Net cash used in continuing operating activities	(854,643)	(843,322)	(1,252,281)	(2,798,408)
Net cash used in discontinued operating activities		-	-	(22,766)
Total net cash used in operating activities	(854,643)	(843,322)	(1,252,281)	(2,821,174)
Cash flows from investing activities:				
Purchase of property and equipment	(141,397)	(202,382)	(209,647)	(579,604)

Restricted cash	(3,014)	-	2,195	(31,953)
Investment in lease deposit	(735)	(2,572)	(2,477)	(7,802)
Net cash used in continuing investing activities	(145,146)	(204,954)	(209,929)	(619,359)
Net cash used in discontinued investing activities		-	-	(16,000)
Total net cash used in investing activities	(145,146)	(204,954)	(209,929)	(635,359)
Cash flows from financing activities:				
Proceeds from issuance of Common stock and warrants, net	-	608,500	608,500	2,086,812
Proceeds from loans, notes and issuance of warrants, notes and issuance of warrants, net	770,000	-	617,410	1,387,410
Net cash provided by continuing financing activities	770,000	608,500	1,225,910	3,474,222
Net cash provided by discontinued financing activities		-	-	42,741
Total net cash provided by financing activities	770,000	608,500	1,225,910	3,516,963
Increase (decrease) in cash and cash equivalents	(229,789)	(439,776)	(236,300)	60,430
Cash and cash equivalents at the beginning of the period	290,219	526,519	526,519	-
Cash and cash equivalents at end of the period	60,430	86,743	290,219	60,430
Non-cash financing activities:				
Non-cash financing activities from continued operations:	-	26,400	30,900	

The accompanying notes are an integral part of the consolidated financial statements.
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BRAINSTORM CELL THERAPEUTICS INC. AND SUBSIDIARY
(A development stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share 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 May 21, 2004, the former major stockholders of the Company entered into a purchase agreement with a group of private investors, who purchased from the former major stockholders 6,880,000 shares of the then issued and outstanding 10,238,000 shares of the Company's Common stock.

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 (see Note 3). Subsequent to this agreement, the Company decided to focus on the development of novel cell therapies for neurodegenerative diseases, particularly, Parkinson's 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 has decided to abandon all old activities related to the sale of the digital data recorder product. The discontinuation of this activity was accounted for under the provision of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

d. On November 22, 2004, the Company changed its name from Golden Hand Resources Inc. to Brainstorm Cell Therapeutics Inc. to better reflect its new line of business in the development of novel cell therapies for neurodegenerative diseases.

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

f. On December 21, 2006, the Company changed its state of incorporation from Washington to Delaware.

g. As of December 31, 2006, the Company had accumulated a deficit of $ 26,243,716, working capital deficiency of $ 2,363,329, incurred net loss of $ 3,924,485 and negative cash flows from operating activities in the amount of $ 854,643 for the nine months ended December 31, 2006. In addition, the Company has not yet generated any revenues.

The Company depends on Ramot to conduct its research and development activities. As discussed in Note 3, the Company has not registered for trade the shares underlying Ramot’s warrants and has an obligation to pay Ramot an amount of $ 367,365. As a result, the Company is in breach of the agreement with Ramot and Ramot may terminate the research and license agreement.

These conditions raise substantial doubt as to the Company's ability to continue to operate as a going concern.

The Company's ability to continue to operate as a going concern is dependent upon additional financial support and upon successful negotiations with Ramot.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 1:- GENERAL (Cont.)

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 and might not be able to pay its liabilities on their scheduled maturity dates.

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.

h. On September 17, 2006, the Board of Directors of the Company determined to change the Company's fiscal year-end from March 31 to December 31. The report is covering the transition period beginning April 1, 2006 and ending December 31, 2006

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation:

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

b. Use of estimates:

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

c. Financial statement in U.S. dollars:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with the provisions of Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation". All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as financial income or expenses, as appropriate.

d. Principles of consolidation:

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

e. Cash equivalents:

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

f. Property and equipment:

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

The annual depreciation rates are as follows:

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

g. Impairment of long-lived assets:

The Company and its subsidiary long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. During 2005 and 2006, no impairment losses were identified.

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Research and development costs:

Research and development costs are charged to expenses as incurred.

i. Severance pay:

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

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

The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Severance expenses for the nine months ended December 31, 2006 and 2005 and for the year ended March 31, 2006 were $ 16,855, $ 17,917 (unaudited) and $ 18,692, respectively.

j. Accounting for stock-based compensation:

Effective April 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"). 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, equity-based compensation expense was recognized in the Company's results of operations when the exercise price of the Company's stock options granted to employees and directors was lower than the fair market value of the underlying stock on the date of grant.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 nine months period ended December 31, 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.

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 of the award, net of estimated forfeiters.

As a result of adopting SFAS 123(R) on April 1, 2006, the Company's net loss for the nine months ended December 31, 2006, is $ 192,322 lower than if it had continued to account for share-based compensation under APB 25. Basic and diluted loss per share for the nine months period ended December 31, 2006, is $ 0.16 lower than if it had continued to account for share-based compensation under APB 25.

The Company estimates the fair value of restricted shares based on its market price on the shares grant date and 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, equal to the expected option term. The expected option term was calculated for options granted to employees and directors in accordance with SAB-107, using the "simplified" method and was based on its contractual term for grants to non-employees. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

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:

	Nine months ended December 31, 2005 Unaudited	Year ended March 31, 2006
Net loss as reported	(2,594,544)	(3,316,749)
Deduct: stock based employee compensation intrinsic value	(832,476)	(1,122,500)
Add: stock-based compensation expense determined under fair value method	956,542	1,330,447
Pro forma net loss	(2,718,610)	(3,524,696)
Basic and diluted net loss per share, as reported	(0.119)	(0.15)
Basic and diluted net loss per share, pro forma	(0.125)	(0.16)

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	**Nine months ended December 31, 2005 Unaudited**	**Year ended March 31, 2006**
Expected volatility	112%	110%
Risk-free interest	4.46%	4.46%
Dividend yield	0%	0%
Expected life of up to (years)	5	7.53

l. Basic and diluted net loss per stock:

Basic net loss per stock is computed based on the weighted average number of stocks outstanding during each year. Diluted net loss per stock is computed based on the weighted average number of stocks outstanding during each year, plus the dilutive potential of the Common stock considered outstanding during the year, in accordance with Statement of Financial Standard No. 128, "Earnings per Stock" ("SFAS No. 128").

All outstanding stock options and warrants have been excluded from the calculation of the diluted loss per stock for the nine months ended December 31, 2006 and 2005, and for the year ended March 31, 2006, since all such securities have an anti-dilutive effect.

In U.S. dollars (except share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Income taxes:

The Company and its subsidiary account for income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes". This Statement requires the use of the liability method of accounting for income taxes, whereby deferred tax asset and liability account balances are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiary provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

n. Fair value of financial instruments:

The following methods and assumptions were used by the Company and its subsidiary in estimating their fair value disclosures for financial instruments:

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

o. Concentrations of credit risks:

Financial instruments that potentially subject the Company and its subsidiary to concentrations of credit risk consist principally of cash and cash equivalents.

Cash and cash equivalents are deposited in banks in the United States and in Israel. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

p. Impact of recently issued accounting standards:

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FAS 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is required to adopt the provisions of the Interpretation effective January 1, 2007. The Company has not yet completed its assessment of the affect of adoption of the Interpretation on the Company’s financial statements.

In U.S. dollars (except share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In February 2007 the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") SFAS No. 159 permits entities to choose to measure many financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a common definition for "fair value" to be applied to generally accepted accounting principles in the United States. It provides guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on the Company's financial statements.

NOTE 3:- RESEARCH AND LICENSE AGREEMENT

a. On July 8, 2004, the Company entered into a research and license agreement ("the original agreement") with Ramot, the technology transfer company of Tel Aviv University Ltd. ("Ramot"). The license agreement grants the Company an exclusive, worldwide, royalty-bearing license to develop, use and sell certain stem cell technology. In consideration of the license, the Company was required to remit an upfront license fee payment of $ 100,000; royalties at a rate of 5% of all net sales of products and 30% of all sublicense receipts. In addition, the Company granted Ramot and certain of its designees fully vested warrants to purchase 10,606,415 shares of its common stock at an exercise price of $ 0.01 per share. The Company will also fund, through Ramot, further research in consideration of $ 570,000 per year for an initial two-year period and for a further two-year period if certain research milestones are met. Ramot may terminate the agreement if the Company fails to reach certain development milestones or materially breaches the agreement.

On March 30, 2006, the Company entered into Amended Research and License Agreement with Ramot, for the purpose of amending and restating the original agreement. According to the agreement, the initial period was amended to an initial research period of three years. The Amended Research and License Agreement also extends the additional two-year research period in the Original Agreement to an additional three-year research period if certain research milestones are met. The Amended Research and License Agreement retroactively amends the consideration to $ 380,000 per year, instead of $ 570,000 per year. As a consequence, an amount of $ 300 thousand was charged to the statement of operations as research and development expenses in the year ended in March 31, 2006. In addition, the Amended Research and License Agreement reduces royalties that the Company may have to pay Ramot, in certain cases ,from 5% to 3% of net sales and also reduces the sublicenses receipt from 30% to 20%-25% of sublicense receipts.

In U.S. dollars (except share data)

NOTE 3:- RESEARCH AND LICENSE AGREEMENT (Cont.)

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

Ramot has instructed the Company that the warrants will be issued as follows: Ramot shall be issued 60% of the warrants, the two consultants, or trustees for their benefits, shall each be issued, in addition to the consultants' warrants described in Note 4, 15% of the Ramot warrants, Mr. Yosef Levy, a member of the research team, shall be issued 8% of the Ramot warrants and Mrs. Pnina Green, a member of the research team , shall be issued 2% of Ramot warrants.

The fair value of the warrants granted, totaling $ 13,151,955 was charged in the year ended March 31, 2005, to the statement of operations as research and development expenses.

The fair value of the warrants was estimated at the grant date using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.9 %, dividend yield of 0%, volatility of 109% and an expected life of 5 years.

According to the Amended Research and License Agreement, the date by which the stocks underlying the warrant must be registered is postponed to no later than December 31, 2006. The Company has not yet registered the stocks, therefore, Ramot may terminate the Research and License Agreement.

b. The Company's total current obligation to Ramot as of December 31, 2006, is in the amount of $ 367,365. The Company is negotiating with Ramot to postpone the payment.

NOTE 4:- CONSULTING AGREEMENTS

a. On July 8, 2004, the Company entered into two consulting agreements with Prof. Eldad Melamed and Dr. Daniel Offen (together "the Consultants"), upon which the Consultants shall provide the Company scientific and medical consulting services in consideration for a monthly payment of $ 6,000 each. In addition, the Company granted each of the Consultants, a fully vested warrant to purchase 1,097,215 shares of the Company's Common stock, at an exercise price of $ 0.01 per share. The warrants issued pursuant to the agreement were issued to the consultants effective as of November 4, 2004. Each of the warrants is exercisable for a five-year period beginning on November 4, 2005.

The fair value of the warrants granted, totaling $ 2,721,093 was charged in the year ended March 31, 2005 to the statement of operations as research and development expenses.

The fair value of the warrants was estimated at the grant date using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.9 %, dividend yield of 0%, volatility of 109% and an expected life of 5 years.

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NOTE 4:- CONSULTING AGREEMENTS (Cont.)

According to the Amended Research and License Agreement, (see Note 3) the date by which the stocks underlying the warrant must be registered, is postponed to no later than December 31, 2006. The company has not yet registered the stocks.

b. As of December 31, 2006, the Company has a total obligation of $ 48,000 for services rendered in respect of the Consultants.

NOTE 5:- ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2006	March 31, 2006
Government authorities	15,832	15,411
Prepaid expenses	25,800	30,040
	41,632	45,451

NOTE 6:- PROPERTY AND EQUIPMENT

	December 31, 2006	March 31, 2006
Cost:		
Office furniture and equipment	5,309	5,309
Computer software and electronic equipment	49,641	34,876
Laboratory equipment	184,494	65,341
Leasehold improvements	371,059	363,581
	610,503	469,107
Accumulated depreciation:		
Office furniture and equipment	579	301
Computer software and electronic equipment	20,438	9,892
Laboratory equipment	26,072	8,253
Leasehold improvements	72,369	39,207
	119,458	57,653
Depreciated cost	491,045	411,454

Depreciation expenses for the nine months ended December 31, 2006 and 2005 and for the year ended March 31, 2006 were $ 61,806, $ 40,684 (unaudited) and $ 57,408, respectively.

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NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2006	March 31, 2006
Employees and payroll accruals	153,005	121,911
Accrued expenses	498,071	248,534
	651,076	370,445

NOTE 8:- SHORT-TERM CONVERTIBLE LOANS

a. On February 7, 2006, the Company issued a $ 500,000 Convertible Promissory Note to a third party. Interest on the note will accrue at the rate of 10% per Annum and will be due and payable in full on February 7, 2007 (the "Maturity Date"). 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the note, will be 75% (50% upon the occurrence of an Event of Default) of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

The Company agreed to pay finder's fee of 10% of the loan. The finder fee totaling $ 50,000 were charged to deferred charges and are amortized as financial expenses over the note period (12 months).

The Company has not paid the loan at the Maturity Date (which is considered an Event of Default) and is negotiating with the lender to postpone the maturity date.

The conversion feature, in the amount of $ 500,000, embedded in the note was calculated based on a conversion rate of 50%, as defined upon the occurrence of an Event of Default. The amount was recorded as discount on the note against additional paid-in capital and is amortized to financial expenses over a 12 month period.

The balance as of December 31, 2006 is comprised as follows:

Note	500,000
Discount	(50,685)
Accrued interest	44,816
	494,131

In U.S. dollars (except share data)

NOTE 8:- SHORT-TERM CONVERTIBLE LOANS (Cont.)

b. On June 5, 2006, the Company issued a $ 500,000 Convertible Promissory Note to a third party under the same terms as the convertible note dated February 7, 2006. The note will be due and payable in full on June 5, 2007.

The Company agreed to pay finder's fee of 10% of the note. The finder fee totaling $ 50,000 were charged to deferred charges and is amortized as financial expenses over the note period (12 months).

The conversion feature, in the amount of $ 500,000, embedded in the note was calculated based on a conversion rate of 50%, as defined upon the occurrence of an Event of Default. The amount was recorded as discount on the note against additional paid-in capital and is amortized to financial expenses over the note period.

The balance as of December 31, 2006 is comprised as follows:

Note	500,000
Discount	(213,699)
Accrued interest	28,630
	314,931

c. 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 8a above). The note will be due and payable in full on September 14, 2007

The Company agreed to pay finder's fee of 10% of the loan. The finder fee totaling $ 10,000 were charged to deferred charges and are amortized as financial expenses over the note period (12 months).

The conversion feature, in the amount of $ 100,000, embedded in the note was calculated based on a conversion rate of 50%, as defined upon the occurrence of an Event of Default.

The balance as of December 31, 2006 is comprised as follows:

Note	100,000
Discount	(70,411)
Accrued interest	2,959
	32,548

In U.S. dollars (except share data)

NOTE 8:- SHORT-TERM CONVERTIBLE LOANS (Cont.)

d. On November 14, 2006, the Company issued a $ 50,000 Convertible Promissory Note to a shareholder. Interest on the note will accrue at the rate of 12% per Annum and will be due and payable in full on February 12, 2007 (the "Maturity Date"). 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the note, will be 75% of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

The Company has not paid the loan on the maturity date. On March 13, 2007 the Company and the creditor agreed that the payment of the $ 50,000 convertible promissory will be deferred until April 15, 2007.

The conversion feature, in the amount of $ 50,000, embedded in the note amounted to $ 16,667.

The balance as of December 31, 2006 is comprised as follows:

Note	50,000
Discount	(14,521)
Accrued interest	773
	36,252

e. On December 12, 2006, the Company issued a $ 200,000 Convertible Promissory Note to a third party. Interest on the note will accrue at the rate of 8% per Annum and will be due and payable in full on December 31, 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the note, will be 75% (60% upon the occurrence of an Event of Default) of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

In addition, the Company granted to the third party warrants to purchase 200,000 of the Company's Common stock at an exercise price of $ 0.45 per stock. The warrants are fully vested and are exercisable at any time after December, 2006 until the second anniversary of the issue date. The fair value of the warrants amounts to $ 23,000.

In U.S. dollars (except share data)

NOTE 8:- SHORT-TERM CONVERTIBLE LOANS (Cont.)

The Company agreed to pay finder's fee of 10% of the loan. The finder fee totaling $ 20,000 were charged to deferred charges and are amortized as financial expenses over the note period.

In accordance with APB 14, the Company allocated the proceeds of convertible note issued with detachable warrants granted based on the relative fair values of the two securities at time of issuance. As a result the Company recorded in its statement of changes in shareholders' equity an amount of $ 11,253 in respect to the warrants and the convertible note was recorded in the amount of $ 187,497.

The conversion feature, in the amount of $ 133,333, embedded in the note was calculated based on a conversion rate of 60%, as defined upon the occurrence of an Event of Default. The amount was recorded as discount on the note against additional paid-in capital and is amortized to financial expenses over the note period.

The balance as of December 31, 2006 is comprised as follows:

Note	187,497
Discount	(129,315)
Accrued interest	482
	58,664

f. 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 original terms of the note issued on February 7, 2006, the Company might 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) were required to be classified as liabilities and measured at fair value with changes recognized currently in earnings, as of March 31, 2006.

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 $ 7,906,289. Gains and losses derive from the remeasurement of the options and warrants to their fair value for the nine months ended December 31, 2006, amounting to $ 488, $ 180, was recorded as R&D, general and administrative expenses and financial expenses. On June 14, 2006, the Company signed an amendment to the note agreement, according to which the Company limited the number of stocks to be issued upon conversion of such note to an amount of 50,000,000 shares of Common stock. As a consequence, the options and warrants were reclassified into equity according to their fair value as of June 14, 2006.

All notes issued during the nine months ended December 31, 2006, include a provision that limits the maximum number of shares to be issued upon conversion.

In U.S. dollars (except share data)

NOTE 9:- SHORT-TERM LOAN

On February 8, 2006, the Company issued a $ 189,000 Promissory Note due June 8, 2006, with an interest of 8% to a third party (the lender). In addition, the Company granted to the third party warrants to purchase 189,000 shares of the Company's Common stock at an exercise price of $ 0.50 per stock. 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 amortized over a four month period ended June 8, 2006.

The fair value of the warrants 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 (see Note 8f for further discussion), 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 a result, an amount equal to the fair value allocated to the warrants was recorded as discount on the note, and was amortized to financial expenses over a four month period, ended June 8, 2006.

On October 3, 2006, the Company issued 630,000 warrants to purchase 630,000 of the Company's Common stock at a purchase price of $ 0.3 shares to the Lender under the 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 warrants are exercisable and expire after three years.

The fair value of the warrants amounted to $ 109,620. The Company estimated the fair value of the warrants using a Black and Scholes option pricing model, with the following assumptions, volatility of 101.7%, risk free interest rate of 4.5%, dividend yield of 0% and an expected life of 36 months. In accordance with FASB 15 "Accounting by Debtors and Creditors for Troubled Debt Restructuring" and in accordance with EITF 02-4 "Determining whether a Debtor's Modifications or Exchange of Debt Instruments are within the scope of FASB 15 the Company recorded the fair value of the warrants as a discount on the note with a corresponding credit to equity. The discount was amortized as financial expenses over a three-month period ended December 31, 2006.

The Company has not paid the loan on the extended maturity date. See also note 10e.

The balance as of December 31, 2006, is comprised as follows:

Loan	175,000
Accrued interest	14,000
	189,000

In U.S. dollars (except share data)

NOTE 10:- COMMITMENTS AND CONTINGENCIES

a. The Company has a license to use office space and receive general office services until July 31, 2007 in consideration for $ 2,500 per month.

b. On December 1, 2004, the Israeli subsidiary entered into a lease agreement for the lease of its facilities. 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 $ 4,250) per month during the first 12 months of the lease; (ii) NIS 19,527 (approximately $ 4,620) per month during the following 24 months of the lease; (iii) NIS 22,317 (approximately $ 5,280) per month during the First Option period; and (iv) NIS 23,712 (approximately $ 5,610) per month during the Second Option period.

The facilities and vehicles of the Company and its subsidiary are rented under operating leases that expire on various dates. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2006 are as follows:

Period ending December 31,	Facilities	Vehicles	Total
2007	96,860	29,037	125,897
2008	74,965	2,727	77,692
2009	74,965	-	74,965
	246,790	31,764	278,554

Total rent expenses for the nine months ended December 31, 2006 and 2005 and for the year ended March 31, 2006 were $ 56,740 $ 40,150 (unaudited) and $ 55,218, respectively.

c. The Company's subsidiary gave a bank guarantee in the amount of $ 31,953 to secure its obligation under the facilities lease agreement.

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

Under the Termination Agreement, the Company and Dr. Beck have agreed to terminate their employment relationship effective February 9, 2006. Pursuant to the Termination Agreement, the Company paid in 10 monthly installments beginning March 1, 2006 a total of $ 47,355 to Dr. Beck. In addition, as per original terms of the grant, options previously granted to Dr. Beck to acquire 800,000 shares of the Company's Common Stock at an exercise price of $ 0.15 per share which are fully vested will be exercisable until February 9, 2010. All compensation expenses related to such vested options were previously recorded in the statement of operations. All other options previously granted to Dr. Beck were forfeited. As a consequence, in the year ended March 31, 2006 a deferred stock compensation in the amount of $3,363,296 was eliminated against additional paid in capital and compensation expenses in the amount of $103,966 were reversed.

NOTE 10:- COMMITMENTS AND CONTINGENCIES (Cont.)

Such termination agreement settles all Dr. Beck's claims against the Company. No further claims can be raised by both parties following the signing of the termination agreement.
As of December 31, 2006, there is still unpaid balance of $ 17,355 to Dr. Beck regarding this termination agreement.

e. The Company received a claim from a lender to pay an additional 10,000 shares of the Company's Common stock for each day of delay, in respect with a short term loan (see Note 9), which the Company did not pay on this due date, December 31, 2006. The Company's management is in the opinion that such commitment does not exist in the agreement with the lender.

NOTE 11:- STOCK CAPITAL

a. 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.

b. 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.

c. Issuance of stocks, warrants and options:

1. Private placements

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

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 stock 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.

In U.S. dollars (except share data)

NOTE 11:- STOCK CAPITAL (Cont.)

c) On March 21, 2005, the Company entered into lock up agreements with its 29 stockholders with respect to 15,290,000 shares 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' 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 out of 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 stock. 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.

2. Share-based compensation to employees and to directors

a) Options to employees and directors:

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

NOTE 11:- STOCK CAPITAL (Cont.)

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 that are canceled or forfeited before expiration become available for future grants.

As of December 31, 2006, 3,751,684 options are available for future grants.

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

On February 6, 2006, the Company entered into an amendment to the Company's option agreement with 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 stock from $ 0.75 per stock.

On May 2, 2006, the Company granted to 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 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 stock from $ 0.75 per stock. The excess of the fair value resulting from the modification amounts to $ 2,408 is recorded as general and administration expense over the remaining vesting period of the option.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 11:- STOCK CAPITAL (Cont.)

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

	Nine months ended December 31, 2006		2005		Year ended March 31, 2006	
	Amount of options	Weighted average exercise price $	Amount of options	Weighted average exercise price $	Amount of options	Weighted average exercise price $
Outstanding at beginning of the period	2,360,760	0.176*	3,009,452	0.249	3,009,452	0.249
Granted	490,000	0.244	380,000	0.75	380,000	0.75
forfeited	-		-		(1,028,692)	0.15
Outstanding at end of period	2,850,760	0.188	3,389,452	0.305	2,360,760	0.271
Vested and expected-to-vest options at end of period	2,068,332	0.166				

*) During 2006, the Company re-priced the exercise price for certain grants to employee and directors. The re-pricing was accounted for in accordance with SFAS 123R, by applying modification accounting. According to SFAS 123(R) modifications are treated as an exchange of the original award, resulting in additional compensation expenses based on the differences between the fair value of the new award and the original award immediately before modification. Applying modification accounting, resulted in additional compensation expenses for the nine months ended December 31, 2006, that amounted to $ 19,723.

Intrinsic value of exercisable options (the difference between the Company's closing stock price on the last trading day in fiscal 2006 and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on December 31, 2006. This amount changes based on the fair market value of the Company's stock. Total intrinsic value of outstanding options and options that are vested and expected to vest options as of December 31, 2006, were $ 2,332,662 and $ 1,751,630, respectively. As of December 31, 2006, expected compensation costs were not yet recognized related to share-based compensation arrangements granted under the Company's stock option plans amounted to $ 581,032.

The fair value on grant date of options which became vested during the nine months period ended December 31, 2006 amounted to $ 214,892

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 11:- STOCK CAPITAL (Cont.)

The options outstanding as of December 31, 2006, have been separated into exercise prices, as follows:

Exercise price	Options outstanding as of December 31, 2006	Weighted average remaining contractual life	Options exercisable as of December 31, 2006
$		Years	
0.15	2,555,760	6.69	1,997,305
0.75	105,000	8.23	46,637
0.28	10,000	9.72	719
0.4	180,000	9.48	23,671
	2,850,760		2,068,332

Some options granted to employees with exercise prices that were lower than the market price of the Company's Common stock on the date of grant. Weighted average fair values and weighted average exercise prices of options and warrants at date of grant are as follows:

	Nine months ended December 31,		Year ended March 31,
	2006	2005 Unaudited	2006
Weighted average exercise price	0.244	0.177	0.271
Weighted average fair value on date of grant	0.88	1.24	1.46

Compensation expenses recorded by the Company in respect of its stock-based employee compensation awards in accordance with APB 25 amounted to $ 1,173,547 and $ 584,024 for the years ended March 31, 2006 and 2005, respectively.

Compensation expenses recorded by the Company in respect to its stock based employee compensation award in accordance with SFAS-123(R) for the nine months ended December 31, 2006, amounted to $ 745,174.

b) Restricted shares to directors:

On May 27, 2005, the Company issued to two of its directors 200,000 restricted stocks (100,000 each). The restricted stocks 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 11:- STOCK CAPITAL (Cont.)

On May 2, 2006, the Company issued to 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 with the grant date. The compensation related to the stocks issued amounted to $ 104,000 which will be amortized over the vesting period as general and administrative expenses.

3. Stocks and warrants to service providers:

The Company accounts for stock option and warrant grants issued to non-employee using the guidance of SFAS No. 123(R), "Accounting for Stock-Based Compensation" and EITTF No. 96-18: "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," whereby the fair value of such option and warrant grants is determined using the Black-Scholes options pricing model at the earlier of the date at which the non-employee's performance is completed or a performance commitment is reached.

a) Warrants:

Issuance date	Number of warrants	Exercise price	Warrants exercisable	Exercisable through
November 2004	12,800,845	$ 0.01	12,800,845	November 2010
December 2004	1,800,000	$ 0.00005	1,800,000	December 2014
	14,600,845		14,600,845	
February 2005, see Note 11c(1)	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	15,978	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	$ 0.15(*)	156,980	July 2010

	17,659,316			17,339,111	
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	$	0.0005	50,000	May 2016
May -December 2006	48,000	$	0.35	48,000	May - December 2011
May -December 2006	48,000	$	0.75	48,000	May - December 2011
May 2006	200,000	$	1	200,000	May 2011
June 2006	24,000	$	0.15	24,000	June 2011
May 2006	19,355	$	0.15	19,355	May 2011
October 2006	630,000	$$	0.3	630,000	October 2009
December 2006	200,000	$$	0.45	200,000	December 2008
	19,345,671			18,787,466	

(*) On May 2, 2006, the Company's board of directors approved to reprice the exercise price of 457,163 options granted to certain service providers from $ 0.7 to $ 0.15 per option.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 11:- STOCK CAPITAL (Cont.)

The fair value of warrants which became vested during the nine months period ended December 31, 2006 amounted to $ 146,534.

During the period from September 27, 2000 (inception) through December 31, 2006, no warrants, granted to service providers, were exercised or forfeited.

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 nine months ended December 31, 2006 and for the year ended March 31, 2006; weighted average volatility of 108% and 115% respectively, risk-free interest rates of 4.8% and 4.6% respectively dividend yields of 0% and a weighted average life of the options of 6 and 4 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 stocks 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 stocks 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 stocks at a purchase price equal to the then fair market value of the restricted stocks.

NOTE 11:- STOCK CAPITAL (Cont.)

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 stock at a purchase price of $ 0.00005 par value under the U.S Stock Option and Incentive Plan (100,000 each). The restricted stocks 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 stocks shall lapse in three annual and equal portions commencing with the grant date.

In July 2005, the Company issued to its legal advisors 50,000 shares for legal services for 12 months. The compensation related to the stocks 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 stocks 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 stocks 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 stocks at a purchase price equal to the fair market value of the restricted stocks. The compensation related to the stocks in the amount of $ 23,343 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 stocks are in lieu of $ 18,500 payable to the legal advisor. The compensation related to the stocks, 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. Related compensation in the amount of $ 25,800 was recorded as general and administrative expenses.

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. Related compensation 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. Related compensation in the amount of $ 24,500 was recorded as general and administrative expenses.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 11:- STOCK CAPITAL (Cont.)

On August 14, 2006, the Company issued 200,000 shares to a service provider. Related compensation 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. Related compensation in the amount of $ 35,000 was recorded as general and administrative expenses.

On September 17, 2006, the Company issued to its legal advisor 231,851 shares of the Company's Common stock. The stocks are in lieu of $ 62,600 payable to the legal advisor.

During April 1 and September 30, 2006, the Company issued to its business development advisor, based on the agreement, 240,000 shares of the Company's Common stock. Related compensation in the amount of $ 74,400 was recorded as general and administrative expenses.

A summary of the Company's stocks award activity related to stocks issued to service providers, and related information is as follows:

	Nine months ended December 31, 2006		2005		Year ended March 31, 2006	
	Amount of shares	Weighted average issue price $	Amount of shares	Weighted average issue price $	Amount of shares	Weighted average issue price $
Outstanding at beginning of the period	1,159,904	1.56	525,000	1.95	525,000	1.95
Issued	1,147,225	0.37	250,000	2.32	634,904	1.24
Outstanding at end of period	2,307,129	0.97	775,000	2.07	1,159,904	1.56

c) Stock-based compensation recorded by the Company in respect of stocks and warrants granted to service providers amounted to $ 453,731 and $ 662,069 for the nine months ended December 31, 2006, and year ended March 31 2006, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 12:- TAXES ON INCOME

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

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

b. Deferred income taxes:

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

	December 31, 2006	March 31, 2006
Operating loss carryforward	1,620,053	945,229
Net deferred tax asset before valuation allowance	1,620,053	945,229
Valuation allowance	(1,620,053)	(945,229)
Net deferred tax asset	-	-

As of December 31, 2006, the Company has provided valuation allowances of $ 1,620,053 in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that since the Company has a history of losses, it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future.

c. Available carryforward tax losses:

As of December 31, 2006, the Company has an accumulated tax loss carryforward of approximately $ 3,924,000. Carryforward tax losses in the U.S. can be carried forward and offset against taxable income in the future for a period of 20 years. Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 12:- TAXES ON INCOME (Cont.)

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

	Nine months ended December 31,		Year ended March 31,
	2006	2005 Unaudited	2006
United States	(3,959,144)	(2,638,907)	(3,375,824)
Israel	51,875	67,217	89,508
	(3,907,269)	(2,571,690)	(3,286,316)

e. Taxes on income included in the statement of operations:

	Nine months ended December 31,		Year ended March 31,
	2006	2005 Unaudited	2006
Current taxes:			
United States	-	-	-
Israel	17,216	22,854	30,433
	17,216	22,854	30,433

NOTE 13:- TRANSACTIONS WITH RELATED PARTIES

	Nine months ended December 31,		Year ended March 31,
	2006	2005 Unaudited	2006
a. Fees and related benefits and compensation expenses in respect of options granted to a member of the Board of Directors who is related party	77,443	44,898	139,993
b. Finance expenses connected to convertible loan from related party (see note 8c)	2,919	-	-

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

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In U.S. dollars (except share data)

NOTE 14:- SUBSEQUENT EVENTS

a. On January 26, 2007, the Company issued a $ 25,000 Convertible Promissory Note to a shareholder in connection with the shareholder's loan to the Company. Interest on the Note will accrue at the rate of 12% per Annum and be due and payable in full on February 28, 2007 (the "Maturity Date"). 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the Note, will be 75% of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

b. On February 5, 2007, the Company issued a $ 50,000 Convertible Promissory Note to a shareholder in connection with the shareholder's loan to the Company. Interest on the Note will accrue at the rate of 8% per Annum and be due and payable in full on February 5, 2008 (the "Maturity Date"). 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the Note, will be 75% of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

c. On March 5, 2007, the Company issued a $ 150,000 Convertible Promissory Note to a third party in connection with the third party loan to the Company. Interest on the Note will accrue at the rate of 8% per Annum and will be due and payable in full on March 5, 2008. 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the Note, will be 75% (60% upon the occurrence of an Event of Default) of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

In addition, the Company granted to the third party warrants to purchase 150,000 of the Company's Common stock at an exercise price of $ 0.45 per stock. The warrants are fully vested and are exercisable at any time after March 5 2006 until the second anniversary of the issue date.

The Company agreed to pay finder's fee of $15,000.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars (except share data)

NOTE 14:- SUBSEQUENT EVENTS (Cont.)

d. On March 14, 2007, the Company issued a $ 50,000 Convertible Promissory Note to a third party in connection with the third party's loan to the Company. Interest on the Note will accrue at the rate of 8% per Annum and will be due and payable in full on March 14, 2008. 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 stocks of the Company's Common stock (the "Common Stock"). The Conversion Price, as defined in the Note, will be 75% of the average of the last bid and ask price of the Common Stock as quoted on the Over-the-Counter Bulletin Board for the five trading days prior to the Company's receipt of the third party written notice of election to convert. However in no event shall the conversion price be grater than $0.35. The Conversion Price will be adjusted in the event of a stock dividend, subdivision, combination or stock split of the outstanding shares.

In addition, the Company granted to the third party warrants to purchase 50,000 of the Company's Common stock, at an exercise price of $ 0.45 per stock. The warrants are fully vested and are exercisable at any time after March 5, 2006 until the third anniversary of the issue date.

e. On March 21, 2007, the Company reached the following resolutions:

1. Issuance of 108,511 stocks of Common stock of the Company to its legal consultant in exchange for legal services in the amount of $ 29,435.

2. Granting of options to purchase 15,000 stocks of Common stock of the Company, in exchange for service in the amount of NIS 20,000, to its Research advisor at an exercise price of $ 0.15. The options will vest in one annual from the day of grant and be exercisable for a period of 5 years. The options were granted in exchange for services in the amount of NIS 20,000.

3. Granting of options to purchase 50,000 stocks of Common stock of the Company, to its Investor relation consultants at an exercise price of $ 0.15. The options are fully vested at the day of grant and be exercisable for a period of 3 years.

4. Issuance of 80,000 shares of common stock of the company to it filing and printing suppliers in exchange for their services in amount of $14,688.

5. Granting of options to purchase 500,000 shares of Common stock of the Company, to its Chief Technology advisor at an exercise price of $ 0.47. The options shall be vested in equal portions in 36 months from the day of grant and be exercisable for a period of 10 years.

6. Grant of options to purchase 350,000 shares of Common stock of the Company, to its chief financial officer at an exercise price of $ 0.47. The options shall be vested in equal portions in 36 months from the grant date and be exercisable for a period of 10 years.

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Income tax benefit (expense)
—

6,188

(7,873
)

1,226

—

(459
)
Net income (loss)
$
(5,798
)

$
(5,800
)

$
7,159

$
5,194

$
(554
)

$
201

Net income (loss) attributable to noncontrolling interests
—

—

(178
)

6,177

—

5,999

Net income (loss) attributable to Media General
$
(5,798
)

$
(5,800
)

$
7,337

$
(983
)

$
(554
)

$
(5,798
)

Other comprehensive income	—	—	—	—	—	—
Total comprehensive income (loss) attributable to Media General	$ (5,798)	$ (5,800)	$ 7,337	$ (983)	$ (554)	$ (5,798)

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Media General, Inc.
Condensed Consolidating Statement of Cash Flows
Year to date through June 30, 2016
(in thousands)

	Media General	LIN Television Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Media General Consolidated
Cash flows from operating activities:						
Net cash provided by operating activities	$ —	$ 7,776	$ 30,052	$ 878	$ —	$ 38,706
Cash flows from investing activities:						
Capital expenditures	—	(5,973)	(18,127)	(214)	—	(24,314)
Proceeds from the sale of PP&E	—	31	4,018	2,023	—	6,072
Receipt of dividend	—	39,005		—	(39,005)	—
Advances on intercompany borrowings	—	(2,644)	—	—	2,644	—
Payments from intercompany borrowings	—	—	39,005	—	(39,005)	—
Other, net	—	—	(114)	—	—	(114)
Net cash provided (used) by investing activities	—	30,419	24,782	1,809	(75,366)	(18,356)
Cash flows from financing activities:						
Borrowings under Media General Revolving Credit Facility	—	—	60,000	—	—	60,000
Repayments under Media General Revolving Credit Facility	—	—	(60,000)	—	—	(60,000)
Repayment of borrowings under Shield Media Credit Agreement	—	—	—	(1,600)	—	(1,600)
Repayment of other borrowings	—	—	—	(431)	—	(431)
Payment for the acquisition of noncontrolling interest	—	—	(35,305)	—	—	(35,305)
Payment of dividend	—	—	(39,005)	—	39,005	—
Proceeds from intercompany borrowings			2,644		(2,644)	—
Payments on intercompany borrowing	—	(39,005)		—	39,005	—
Exercise of stock options	—	—	1,714	—	—	1,714
Other, net	—	(293)	(148)	—	—	(441)
Net cash provided (used) by financing activities	—	(39,298)	(70,100)	(2,031)	75,366	(36,063)
Net (decrease) increase in cash and cash equivalents	—	(1,103)	(15,266)	656	—	(15,713)
Cash and cash equivalents at beginning of period	—	1,103	35,925	4,063	—	41,091
Cash and cash equivalents at end of period	$ —	$ —	$ 20,659	$ 4,719	$ —	$ 25,378

Media General, Inc.
Condensed Consolidating Statement of Cash Flows
Year to date through June 30, 2015
(in thousands)

	Media General	LIN Television Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Media General Consolidated
Cash flows from operating activities:						
Net cash provided (used) by operating activities	$(1,402)	$ 6,528	$ 83,285	$ 7,977	$ —	$ 96,388
Cash flows from investing activities:						
Capital expenditures	—	(8,610)	(13,876)	(1,564)	—	(24,050)
Release of restricted cash at qualified intermediary	—	—	119,903	—	—	119,903
Proceeds from sale the of PP&E	—	50	641	—	—	691
Proceeds from spectrum sale	—	—	620	2,500	—	3,120
Receipt of dividend	—	39,005	—	—	(39,005)	—
Payments from intercompany borrowings	2,025	—	24,230	—	(26,255)	—
Payment of capital contributions	(3,011)	—	—	—	3,011	—
Other, net	—	—	—	(69)	—	(69)
Net cash provided (used) by investing activities	(986)	30,445	131,518	867	(62,249)	99,595
Cash flows from financing activities:						
Repayment of borrowings under Media General Credit Agreement	—	—	(135,000)	—	—	(135,000)
Repayment of borrowings under Shield Media Credit Agreement	—	—	—	(1,200)	—	(1,200)
Repayment of other borrowings	—	—	—	(580)	—	(580)
Payment for share repurchase	—	—	(18,747)	—	—	(18,747)
Payment of dividend	—	—	(39,005)	—	39,005	—
Payments on intercompany borrowing	—	(26,255)	—	—	26,255	—
Payment for the acquisition of noncontrolling interest	—	(9,218)	—	—	—	(9,218)
Receipt of capital contributions	—	3,011	—	—	(3,011)	—
Cash paid for debt modification	—	—	(3,425)	—	—	(3,425)
Exercise of stock options	—	—	1,817	—	—	1,817
Other, net	—	(207)	(1,215)	(50)	—	(1,472)
Net cash (used) provided by financing activities	—	(32,669)	(195,575)	(1,830)	62,249	(167,825)
Net (decrease) increase in cash and cash equivalents	(2,388)	4,304	19,228	7,014	—	28,158
Cash and cash equivalents at beginning of period	2,388	9,658	27,371	4,503	—	43,920
Cash and cash equivalents at end of period	$—	$ 13,962	$ 46,599	$ 11,517	$ —	$ 72,078

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

OVERVIEW

Media General is one of the U.S.'s largest local multimedia companies, providing top-rated news, information and entertainment across 48 markets. Media General, Inc. owns, operates or provides services to 71 network-affiliated broadcast television stations (23 with CBS, 13 with NBC, 12 with ABC, 8 with FOX, 8 with CW and 7 with MyNetworkTV) and their associated digital media and mobile platforms. These stations reach approximately 23% of U.S. TV households, and the Company reaches nearly 39% of the U.S. Internet audience. 50 of the 71 stations are located in the top 100 designated market areas as grouped by Nielsen ("DMAs"), while 27 of the 71 stations are located in the top 50 markets. The Company also has a large and diverse digital media business.

In September 2015, the Company announced a merger agreement under which the Company would have acquired all of the outstanding common stock of Meredith Corporation ("Meredith") in a cash and stock transaction. Later in September of 2015 the Company received an unsolicited proposal from Nexstar Broadcasting Group, Inc. ("Nexstar") to acquire all of the outstanding common stock of Media General. Following discussion between the various parties, in January 2016 Media General terminated its agreement with Meredith with Media General paying Meredith a $60 million termination fee and providing Meredith with an opportunity to negotiate for the purchase of certain broadcast and digital assets owned by the Company. Immediately thereafter, the Company entered into an agreement with Nexstar whereby Nexstar will acquire all outstanding shares of Media General for $10.55 per share in cash, 0.1249 shares of Nexstar Class A common stock for each Media General share and a contingent value right (CVR). The cash consideration and the stock consideration are fixed amounts and do not increase or decrease based upon the proceeds (if any) from the disposition of either Nexstar's or Media General's spectrum in the Federal Communication Commissions's ("FCC") Incentive Auction. Upon the completion of the transaction, Nexstar will change its name to Nexstar Media Group. Each CVR will entitle Media General shareholders to a pro rata share of the net cash proceeds as received from the sale of Media General's spectrum in the FCC's Incentive Auction. It is estimated that Media General shareholders will own approximately 34% and existing Nexstar shareholders will retain approximately 66% ownership of the combined company after closing. The closing of the transaction is subject to the satisfaction of a number of conditions including, but not limited to, the approval of various matters relating to the transaction by Media General and Nexstar shareholders, the approval of the FCC, clearance under the Hart-Scott-Rodino antitrust act and certain third party consents.

In connection with the Nexstar transaction, Nexstar and its respective subsidiaries, as applicable, have entered into definitive agreements to divest Nexstar's WCWJ station in Jacksonville, Florida and the Company's WSLS-TV station in Roanoke-Lynchburg, Virginia to Graham Media Group, Inc.; Nexstar's KADN-TV and KLAF-LD stations in Lafayette, Louisiana to Bayou City Broadcasting Lafayette, Inc.; Nexstar's KREG-TV station in Denver, Colorado to Marquee Broadcasting, Inc.; the Company's WBAY-TV station in Green Bay, Wisconsin and KWQC-TV station in Davenport-Moline-Rock Island, Iowa to Gray Television Group, Inc.; the Company's KIMT station in Rochester, Minnesota, WTHI-TV station in Terre Haute, Indiana, WLFI-TV station in Lafayette, Indiana, as well as Nexstar's WFFT-TV station in Ft. Wayne, Indiana and KQTV station in Saint Joseph, Missouri to USA Television MidAmerica Holdings, LLC; and the Company's KASA-TV station in Albuquerque, New Mexico to Ramar Communications, Inc. The Company expects that the sales of these stations will occur substantially concurrent with the closing of the transaction with Nexstar, which is expected to occur later this year.

In April 2012, President Obama signed into law the American Jobs Act, which provides the FCC with the authority to conduct an "incentive auction" to auction and repurpose broadcast television spectrum for mobile broadband use. Pursuant to this authority and to encourage broadcasters to tender their licenses for auction, the FCC is permitted to share the proceeds of spectrum auction with incumbent television station licensees. In order to receive proceeds, licensees must agree to give up their licenses, share spectrum, or, in some cases, move to a different channel to

facilitate an auction of their previous channel. The FCC would then “repack” non-tendering UHF broadcasters into the lower portions of the UHF band and auction new “flexible use” wireless licenses in the upper portion of the UHF band. By statute, television stations’ participation in the “incentive auction” is voluntary. Bidding in the Clock Phase of Stage 1 of the reverse auction has been completed. The forward auction is ongoing. Depending on the outcome of this phase, the FCC may conduct one or more additional phases of the reverse auction. No auction results have been finalized. As part of the Nexstar agreement, the Company has a contingent value right entitling Media General shareholders to a pro rata share of the net cash proceeds as received from the sale of Media General’s spectrum. The Company anticipates that this right could be worth anywhere from $0 to $4 per share.

RESULTS OF OPERATIONS

The Company recorded net income attributable to Media General of $18 million ($0.14 per diluted share) in the second quarter of 2016 and a net loss attributable to Media General of $7.7 million (($0.06) per diluted share) during the first six months of 2016, compared to net income attributable to Media General of $1.6 million ($0.01 per diluted share) and a net loss attributable to Media General of $5.8 million (($0.04) per diluted share) in the equivalent periods of 2015. Net income attributable to Media General for the second quarter of 2016 increased $17 million from the equivalent period in the prior year driven by a 13% increase in net operating revenue. The Company's results during the first six months of 2016 included the $60 million termination fee paid to Meredith in January 2016, an additional $7 million of merger-related expenses and restructuring expenses of $5 million. Comparatively, the Company's results during the first six months of 2015 included operating gains of $5.6 million (in Other, net) on the relocation of broadcast channels in Lansing, Michigan and Austin, Texas and a $2.5 million reduction in Operating Expenses for settlement proceeds related to prior-period overcharges by a music licensing agency.

Net income for the second quarter of 2016 was $19 million and included net income attributable to noncontrolling interests of $0.7 million. For the first six months of 2016 the Company recorded a net loss of $6.5 million and net income attributable to noncontrolling interests of $1.2 million. The income attributable to noncontrolling interests represents the aggregate income of certain stations operated by the Company through JSA/SSA arrangements. The remaining noncontrolling interest in HYFN Inc. was acquired by the Company on April 1, 2016.

The Company generated $118 million and $221 million of operating income from its Broadcast segment in the three and six months ended June 30, 2016, respectively. Its Digital segment recorded operating income of $3.2 million and $1.5 million during the same periods.

REVENUES

Revenues were $363 million and $706 million in the second quarter and first six months of 2016, respectively, compared to $321 million and $617 million in the same prior-year periods. Revenues are grouped primarily into four major categories: Local, National, Political and Digital. The following chart summarizes the consolidated period-over-period changes in these select revenue categories.

	Three Months Ended			
(Unaudited, in thousands)	June 30, 2016	% of Total	June 30, 2015	Percent Change
Local	$247,861	68.3%	$220,143	12.6 %
National	53,558	14.8%	52,955	1.1 %
Political	10,448	2.9 %	2,628	297.6 %
Digital	43,045	11.9%	36,421	18.2 %
Other	7,794	2.1 %	8,376	(6.9)%
Net operating revenue	$362,706		$320,523	13.2 %

	Six Months Ended			
(Unaudited, in thousands)	June 30, 2016	% of Total	June 30, 2015	Percent Change
Local	$478,084	67.7%	$427,027	12.0 %
National	103,123	14.6%	102,072	1.0 %
Political	26,458	3.7 %	3,742	607.1 %
Digital	80,915	11.5%	66,671	21.4 %
Other	17,589	2.5 %	17,745	(0.9)%
Net operating revenue	$706,169		$617,257	14.4 %

Local revenue increased $28 million and $51 million during the three and six months ended June 30, 2016, respectively, as a result of increased retransmission revenue and, to a lesser extent, an increase in core local advertising. National advertising revenue increased slightly driven by automotive and retail. Political revenue for the quarter was almost 4 times the prior-year level due to strong advertising levels in Indiana, Pennsylvania, North Carolina and South Carolina. Political for the year-to-date was seven-fold the prior-year level due to the competitive Presidential primary races. The 18% and 21% increase in Digital revenue for the quarter and year-to-date, respectively, was primarily the result of increased activity in social media and higher traffic on our stations' websites.

OPERATING COSTS

Total operating costs increased $19 million in the second quarter of 2016 from the prior-year equivalent period primarily driven by a $14 million increase in network programming payments and one-time acquisition-related compensation of $7 million related to the purchase of HYFN (as discussed in Item 1, Note 9). For the first six months of 2016 operating costs increased $104 million from the prior-year equivalent period overwhelmingly due to the $60 million fee paid to Meredith to terminate that merger agreement, $27 million increase in network programming payments and the $7 million one-time payment related to the purchase of HYFN. The increase in network programming payments was driven in large part by the increase in retransmission revenue. Absent the merger-related expenses, restructuring costs, the one-time acquisition-related compensation and higher network fees, total operating costs for the second quarter were flat when compared to the same period in the prior year and total operating costs for the first six months of 2016 only increased 1% from the same period in 2015, reflecting effective expense management.

Corporate and other expenses as reported on the consolidated statements of comprehensive income increased by $5.7 million and $3 million in the three and six months ended June 30, 2016, respectively, due to the one-time acquisition-related compensation of $7 million discussed above. Excluding the impact of the one-time payment, Corporate expenses would have decreased 16% for the first six months of 2016 due to lower stock-based compensation and the impact of merger related synergies.

Depreciation and amortization expense as reported on the consolidated statements of comprehensive income was $40 million and $80 million in the three and six months ended June 30, 2016, respectively, compared to $43 million and $83 million in the corresponding prior year periods.

The Company recorded $1.6 million and $3.6 million of merger-related costs in the second quarter of 2016 and 2015, respectively, as shown on the Consolidated Condensed Statements of Comprehensive Income primarily for employee severance, investment banking, legal and professional fees related to the LIN Merger and the merger with Nexstar (reflected in 2016 only). The 2016 costs also included legal fees related to the terminated merger with Meredith. Merger-related costs for the first six months of 2016 were $67 million compared to $9 million in the first six months of 2015. The merger-related expenses for the first six months of 2016 included a $60 million termination fee

associated with the terminated Meredith merger, employee severance, investment banking legal, and professional fees related to the LIN Merger, the Nexstar Merger and the terminated merger with Meredith. Merger-related costs for the first six months of 2015 were primarily for restructuring, investment banking, legal and professional fees related to the LIN Merger.

In September 2015, the Company adopted a plan to restructure certain digital segment operations (as discussed more fully in Item 1, Note 9), which is expected to save the Company $14.7 million in operating costs annually. The Company took additional steps under this plan in the first quarter of 2016. The Company recorded restructuring expense of 2.4 related to the plan during the six months ended June 30, 2016.

In the six months ended June 30, 2016 the Company recorded restructuring expense of 2.6 related to WAGT as described more fully in Item 1, Note 9. As of June 30, 2016, Media General has pending legal causes of action against Gray, and Schurz Communications, Inc. and WAGT Television, Inc., including but not limited to, causes of action for breach of contract. The Company has agreed to stay this litigation pending the closing of the Nexstar merger and the divestiture of certain stations with Gray (as discussed in Item 1, Note 1). If the transactions close, the parties will dismiss all claims and counterclaims with no additional consideration for either party. If not, the parties may resume the litigation.

INTEREST EXPENSE

For the three and six months ended June 30, 2016, interest expense was $29 million and $57 million, respectively, representing a decrease of 2.7% and 5.3% from the corresponding periods in the prior year due to repayments of debt during 2015. The Company’s effective interest rate was just over 5% for all periods presented.

During the first six months of 2016, the Company repaid $2 million on certain borrowings.

INCOME TAXES

The effective tax rate was 38.7% in the second quarter of 2016 as compared to 43.3% in the second quarter of 2015. The effective tax rate in the first six months of 2016 was 56.0% as compared to 69.6% in the equivalent prior-year period. The lower tax benefit is primarily due to a discrete tax benefit recorded in the first quarter of 2016 related to merger-related expenses recorded in the prior year as well as the relative levels of favorable book/tax differences compared to the pre-tax loss. In 2016, the Company adopted Approach I as defined under ASC 740 with respect to merger-related expenses and has provided tax benefit on “sell-side” merger expenses until the proposed transaction is finalized. Ultimately, some of these expenses may be non-deductible. The tax expense in both years was predominantly non-cash due to the Company’s significant net operating loss carryover. Current tax expense was approximately $1.4 million and $1.3 million for the second quarters of 2016 and 2015, respectively, and was approximately $2.3 million and $1.5 million in the first six months of 2016 and 2015, respectively; it was attributable primarily to state income taxes. Cash taxes paid (net of refunds) in the first six months of 2016 was $2 million.

The Company records income tax expense using the liability method, under which deferred tax assets and liabilities are recorded for the differing treatments of various items for financial reporting versus tax reporting purposes. The Company evaluates the need for a valuation allowance for deferred tax assets. Included in that analysis is the fact that the Company has carried forward an estimated $549 million of net operating losses (NOLs) as of June 30, 2016. The Company anticipates being able to use these NOLs before they expire over the course of the next 20 years, although there are certain limitations in future years.

OTHER

In April 2016, the Company acquired the remaining shares of HYFN, a full service digital advertising agency for a purchase price of approximately $35 million plus one-time compensation expense of $7 million related to the transaction for a total cash outflow of $42 million. Prior to the transaction, the Company held 50.1% of the outstanding shares of HYFN. As a result of the transaction, HYFN is 100% owned by the Company beginning with the second quarter of 2016.

In prior years, the Company entered into agreements with a telecommunications company to relocate broadcast channels in our Lansing, Michigan and Austin, Texas markets. For the three and six months periods ended June 30, 2015, the Company recorded non-operating gains of $2.5 million and $5.6 million, respectively, related to these agreements for the completion of the relocation.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s primary source of liquidity is its cash flow from operations, but it also has access to the $150 million revolving credit facility and cash on its balance sheet. The Company has $146 million of availability under the revolving credit facility (giving effect to $3.6 million of letters of credit which have been issued but are undrawn) and $25 million of cash on its balance sheet as of June 30, 2016. There is $4.7 million of cash in the consolidated balance sheet as of June 30, 2016, which can only be used to settle the obligations of the VIEs as discussed in Note 3. During the first six months of 2016, the Company has used its cash for the Meredith termination fee, capital expenditures, further investment in its operations and other corporate initiatives.

The Company generated $39 million of cash from operating activities during the six months ended June 30, 2016. This compared to $96 million of net cash generated by operating activities in the year-ago period. The decrease from the year-ago period is primarily the result of the $60 million termination fee paid in January 2016

The Company internally, and analysts in the Broadcast industry, use a non-GAAP Broadcast Cash Flow (BCF) metric as a key measure. BCF is defined as operating income plus corporate and other expenses, depreciation and amortization, net gains related to property and equipment, program license rights amortization less payments for program license rights, merger-related expenses, and restructuring expenses. As shown in the table that follows, BCF increased from $96 million to $120 million in the second quarter of 2016 and from $174 million to $222 million in the first six months of 2016 , primarily due to the impact of Presidential primary spending during 2016:

	Three Months Ended	
(Unaudited, in thousands)	June 30, 2016	June 30, 2015
Net Operating Revenue	$362,706	$320,523
Less: Operating Costs	(302,915)	(283,671)
Operating Income	59,791	36,852
Add:		
Depreciation and amortization	40,337	42,618
Corporate and other expenses	18,101	12,366
Gain related to property and equipment, net	87	(196)
Program license rights, net	(772)	922
Merger-related expenses	1,561	3,616
Restructuring expenses	996	—
Broadcast cash flow	$120,101	$96,178

	Six Months Ended	
(Unaudited, in thousands)	June 30, 2016	June 30, 2015
Net Operating Revenue	$706,169	$617,257
Less: Operating Costs	(664,014)	(559,758)
Operating Income	42,155	57,499
Add:		
Depreciation and amortization	80,458	82,901
Corporate and other expenses	28,453	25,017
Gain related to property and equipment, net	(681)	(424)
Program license rights, net	(816)	47
Merger-related expenses	67,443	8,893
Restructuring expenses	4,978	—
Broadcast cash flow	$221,990	$173,933

The Company used cash for its investing activities of $18 million during the first six months of 2016 primarily due to $24 million of capital expenditures partially offset by $6.1 million of proceeds from the sale of property and equipment. Investing activities provided cash of $100 million for the first six months of 2015 primarily due to the release from a qualified intermediary of $120 million in restricted cash related to the 2014 sale of WJAR-TV and $3.1 million related to the relocation of broadcast channels in Lansing, Michigan and Austin, Texas. The cash inflows were partially offset by capital expenditures of $24 million.

Cash used by financing activities of $36 million in the six months ended June 30, 2016 compared to cash used by financing activities of $168 million in the six months ended June 30, 2015. The Company had a $35 million cash outflow in 2016

related to the acquisition of the remaining noncontrolling interest in HYFN. The higher outflow in 2015 primarily resulted from debt repayments of $135 million and a $9.2 million cash outflow related to the acquisition of the remaining noncontrolling interest in Dedicated Media.

Debt Agreements

At June 30, 2016, the Company had the following debt facilities and other debt instruments:

	Maturity Date	Amount	Interest Rate
Term Loan	2020	$1,541 million	LIBOR + 3.00% w/ 1% LIBOR floor
Revolver	2018	$146 million available; None drawn	LIBOR + 2.50%; 0.5% commitment fee
5.875% Senior Notes	2022	$400 million	Fixed
6.375% Senior Notes	2021	$275 million	Fixed
Shield Media Term Loans	2018	$26 million	LIBOR + 3.00%
Other Borrowings	2016/2017	$0.5 million	LIBOR + 3.00%

The Company loans are guaranteed by its subsidiaries, and the Company has pledged substantially all of its assets as collateral for the loans. The Shield Media loans are guaranteed by the Company, and the Company has pledged substantially all of its assets as collateral for the loans, on a pari passu basis with the Media General credit agreement. Both sets of Senior Notes are also guaranteed by the Company and certain of LIN TV’s subsidiaries on a full and unconditional basis.

The credit agreement governing the Senior Secured Credit Facility contains a leverage ratio covenant which is tested for purposes of the Revolving Loan Facility if and when the Revolver borrowings and non-collateralized letters of credit exceed $45 million at a quarter end. At other times, there is not a required maximum leverage ratio in which the Company must operate. The leverage ratio involves debt levels and a rolling eight-quarter calculation of EBITDA, as defined in the agreement if applicable. For the second quarter of 2016, the maximum ratio would have been 5.0 times if it had been in effect. Additionally, the agreement has restrictions on certain transactions that are operational regardless of Revolver borrowing level, including the incurrence of additional debt, capital leases, investments, fundamental changes (including additional acquisitions mergers or consolidations), limitation liens, prepayment or amendment of certain debt, transactions with affiliates, changes in the nature of the business, asset sales and restricted payments (including dividends and share repurchases) as defined in the agreement.

The Shield Media loans have a fixed charge coverage ratio (a ratio of fixed charges (interest, debt payments, capital expenditures and taxes) to EBITDA, calculated on a rolling eight-quarter basis, as defined in the agreement). The Shield Media loans also have restrictions on transactions similar in nature to those in the new Media General credit agreement, but scaled to Shield Media’s smaller size. Additionally, the Shield Media loans have more specific covenants regarding the operation of the Shield Media business and requires that each Shield Media holding company that controls a Shield Media station limit its activities to the performance of its obligations under the Shield Media credit documents, and activities incidental thereto, including owning a Shield Media station and the performance of its obligations under and activities related to the shared services agreement. The Senior Notes do not contain financial maintenance covenants, but do include restrictive covenants with respect to the ability to incur additional debt and issue disqualified stock; pay dividends or make other restricted payments; prepay, redeem or repurchase capital stock or subordinated debt; transfer or sell assets; make investments; enter into transactions with affiliates; create or incur liens; and merge or consolidate with any other person. The Media General and Shield Media credit agreements along with both sets of Senior Notes contain cross-default provisions.

The Company does not have material off-balance sheet arrangements.

Consolidated net leverage, as defined in the Credit Agreement governing the Revolving Credit Facility, was 5.05x as of June 30, 2016. As noted above, the Company was not required to operate within the maximum leverage ratio as the Revolver borrowings and non-collateralized letters of credit did not exceed $45 million as of June 30, 2016.

OUTLOOK

The Company owns, operates or provides services to 71 stations across 48 markets covering 23% of U.S. TV households. The Company's scale and location within several strongly contested states with substantial political spending has already facilitated increased cash flow generation during the active primary season. Additionally, the Company grew retransmission revenue in the first six months of 2016 and is participating in the FCC spectrum auction that is currently ongoing. For the remainder of 2016, the Company expects to benefit from the Olympics in Rio de Janeiro, Brazil as the location should enable more "live" events on the Company's 13 NBC stations. The Company also expects to continue to generate strong free cash flow from Political and retransmission during the remainder of the year. The Company continues to work with Nexstar to secure the necessary approvals to effectuate the announced merger transaction.

* * * * * * * *

Certain statements in this quarterly report, particularly those in the section with the heading "Outlook" are not historical facts and are "forward-looking" statements, as that term is defined by the federal securities laws. Forward-looking statements include, among others, statements related to accounting estimates and assumptions, expectations regarding the pending merger, regulatory approvals and debt levels, interest rates, the impact of technological advances including consumer usage of mobile television and expectations regarding the effects of retransmission fees, network affiliate fees, pension and postretirement plans, capital spending, general advertising levels and political advertising levels, the effects of changes to FCC regulations and FCC approval of license applications. Forward-looking statements, including those which use words such as the Company "believes," "anticipates," "hopes," "expects," "estimates," "intends," "projects," "plans," "may" and similar words, including "outlook", are made as of the date of this quarte report on Form 10-Q and are subject to risks and uncertainties that could potentially cause actual results to differ materially from those results expressed in or implied by such statements. The reader should understand that it is not possible to foresee or identify all risk factors. Consequently, any such list should not be considered a complete statement of all potential risks or uncertainties.

Various important factors could cause actual results to differ materially from the Company's forward looking statements, estimates or projections including, without limitation: the impact of the Nexstar merger transaction, changes in advertising demand, failure to achieve cost savings in connection with restructuring digital, emergence of new digital advertising platforms, health care cost trends, changes to pending accounting standards, changes in consumer preferences for programming and delivery method, changes in relationships with broadcast networks and advertisers, the performance of pension plan assets, regulatory rulings including those related to joint sales and shared service agreements and tax law, natural disasters, and the ability to renew retransmission and broadcast network agreements. Actual results may differ materially from those suggested by forward-looking statements for a number of reasons including those described in Item 1A ("Risk Factors") of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company’s Annual Report on Form 10-K for the year ended December 31, 2015, provides disclosures about market risk. As of June 30, 2016, there have been no material changes in the Company’s market risk from December 31, 2015.

Item 4. Controls and Procedures

The Company’s management, including its chief executive officer and chief financial officer, performed an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of June 30, 2016. Based on that evaluation, the Company’s management, including its chief executive officer and chief financial officer, concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2016. There have been no significant changes in the Company’s internal controls over financial reporting or in other factors during the quarter ended June 30, 2016 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a)
Exhibits

31.1	Section 302 Chief Executive Officer Certification
31.2	Section 302 Chief Financial Officer Certification
32	Section 906 Chief Executive Officer and Chief Financial Officer Certification
101	The following financial information from the Media General, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL includes: (i) Consolidated Condensed Balance Sheets at June 30, 2016 and December 31, 2015, (ii) Consolidated Condensed Statements of Comprehensive Income for the three and six months ended June 30, 2016 and June 30, 2015, (iii) Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2016 and June 30, 2015, and (iv) the Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

Pursuant to the requirements 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.

MEDIA GENERAL, INC.

Date: August 5, 2016 By: /s/ Vincent L. Sadusky
Vincent L. Sadusky
President and Chief Executive Officer

Date: August 5, 2016 By: /s/ James F. Woodward
James F. Woodward
Senior Vice President, Chief Financial Officer