STEMCELLS INC
Form PREM14A
September 13, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant ¨ Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under §240.14a-12

STEMCELLS, INC.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

Common stock, par value $ .01 per share (Common Stock)

(2) Aggregate number of securities to which transaction applies:

228,752,648 shares of Common Stock to be issued to shareholders of Microbot Medical Ltd. by StemCells, Inc. pursuant to that certain Agreement and Plan of Merger and Reorganization, dated as of August 15, 2016, by and among StemCells, Inc., Microbot Medical Ltd, and C&RD Israel Ltd., assuming the exchange ratio determined based on information as to equity ownership as of August 31, 2016.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The proposed maximum aggregate value of the transaction was calculated based on the product of 228,752,648 shares of Common Stock multiplied by $1.36 per share (the average of the high and low trading prices of the Common Stock on The NASDAQ Capital Market on September 12, 2016).

(4) Proposed maximum aggregate value of transaction:

$311,103,602

(5) Total fee paid: $31,329

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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September [ ], 2016

To the Stockholders of StemCells, Inc.:

You are cordially invited to attend the special meeting of the stockholders of StemCells, Inc., which will be held at 2:00 p.m., local time, on October [ ], 2016, at 39899 Balentine Drive, Suite 200, Newark, CA 94560, unless postponed or adjourned to a later date. This will be an important meeting affecting your investment in StemCells because we will be asking for stockholder approval necessary to complete the previously-announced merger with Microbot Medical Ltd, a privately held biotechnology company organized under the laws of the State of Israel.

On August 15, 2016, StemCells, Microbot, and C&RD Israel Ltd., a wholly-owned subsidiary of StemCells which we refer to as Merger Sub, entered into an Agreement and Plan of Merger and Reorganization, which we refer to as the Merger Agreement, pursuant to which Merger Sub will merge with and into Microbot, with Microbot surviving as a wholly-owned subsidiary of StemCells (the Merger). The Merger has already been approved by the boards of directors of StemCells, Microbot and Merger Sub and the shareholders of Microbot. The Merger remains subject to approval of the stockholders of StemCells, StemCells having a minimum net cash amount of not less than $0, as well as other closing conditions set forth in the Merger Agreement.

At the effective time of the Merger, each share of Microbot capital stock outstanding will be converted into the right to receive 26.6 shares of StemCells common stock, subject to adjustment to account for a proposed reverse stock split to be implemented prior to the closing of the Merger, which is described in the accompanying proxy statement. StemCells stockholders will continue to own and hold their existing shares of StemCells common stock. Following the completion of the Merger, former shareholders of Microbot and certain advisors with respect to the Merger are expected to own 95% of the combined company comprised 75% of existing Microbot shareholders and 20% by certain advisors (which includes an existing Microbot shareholder) and current stockholders of StemCells are expected to own 5% of the combined company, in each case based on the fully diluted shares of each company prior to consummation of the Merger.

Shares of StemCells common stock are currently listed on The NASDAQ Capital Market under the symbol STEM After completion of the Merger, StemCells will be renamed Microbot Medical Inc. and expects to trade on The NASDAQ Capital Market under the symbol .

At this special stockholder meeting, our stockholders will be asked to vote upon various proposals, most of which are necessary for us to complete the Merger. Specifically, StemCells is soliciting proxies for use at the special meeting of its stockholders to consider and vote upon (i) a proposal to approve and adopt the Merger Agreement; (ii) a proposal to approve the issuance of shares of StemCells common stock to advisors and to the Microbot shareholders in connection with the Merger, (iii) a proposal to approve an amendment to StemCells certificate of incorporation to effect a reverse stock split of StemCells common stock within the range of one-for-[ ] to one-for-[ ], (iv) a proposal to approve an amendment to StemCells certificate of incorporation to increase the number of authorized shares of StemCells common stock to [ ] shares, (v) a proposal to approve an amendment to StemCells certificate of incorporation to change the name of StemCells in connection with the Merger to Microbot Medical Inc. and (vi) an adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the proposals referred to in clauses (i) through (v).

Approval of the foregoing proposals (i) through (v) will be necessary to complete the Merger. **Our Board of Directors recommends that StemCells stockholders vote FOR each of these proposals.**

Our Board of Directors has fixed the close of business on [ ], 2016, as the record date for determining those stockholders who are entitled to notice of, and to vote at, the special meeting of stockholders and any

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postponements or adjournments thereof. The stock transfer books will not be closed between the record date and the date of the meeting.

More information about StemCells, Microbot and the proposed Merger transaction is contained in the accompanying proxy statement. We urge you to read the proxy statement carefully and in its entirety. All stockholders are invited to attend the special meeting. **Your vote is very important, regardless of the number of shares you own**. Whether or not you expect to attend the special meeting in person, please complete, date, sign and promptly return the accompanying proxy card in the enclosed postage paid envelope to ensure that your shares will be represented and voted at the special meeting.

We appreciate your cooperation in considering and acting on the matters presented.

By Order of the Board of Directors,

of StemCells Inc.,

Kenneth B. Stratton, Esq.

President & General Counsel

StemCells, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this proxy statement. Any representation to the contrary is a criminal offense.

The accompanying proxy statement is dated September [ ], 2016, and is first being mailed to StemCells stockholders on or about September [ ], 2016.

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STEMCELLS, INC.

39899 Balentine Drive, Suite 200

Newark, CA 94560

(650) 670-2282

NOTICE OF SPECIAL MEETING OF STEMCELLS STOCKHOLDERS

TO BE HELD ON OCTOBER [ ], 2016

Time: 2:00 p.m.

Date: October [ ], 2016

Place: 39899 Balentine Drive, Suite 200
Newark, CA 94560

Purposes:

1. To approve and adopt the Agreement and Plan of Merger and Reorganization, dated as of August 15, 2016 (the Merger Agreement), by and among StemCells, Microbot and C&RD Israel Ltd., a wholly owned subsidiary of StemCells (Merger Sub), and approve the transactions contemplated thereby;

2. To approve the issuance of StemCells common stock, par value $0.01 per share, in connection with the Merger to advisors and to shareholders of Microbot, in each case as contemplated by the Merger Agreement;

3 To amend StemCells restated certificate of incorporation to effect a reverse stock split of StemCells issued and outstanding common stock within the range of one-for-[ ] to one-for-[ ] (with the exact amount to be determined by StemCells Board of Directors prior to the completion of the Merger);

4. To amend StemCells restated certificate of incorporation to increase the number of authorized shares of StemCells common stock from 200,000,000 to [ ] shares;

5. To amend StemCells restated certificate of incorporation to change the name of StemCells from StemCells, Inc. to Microbot Medical Inc. ;

6. To approve the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal Nos. 1, 2, 3, 4, or 5; and

7. To conduct any other business as may properly come before the StemCells special meeting or any adjournment or postponement thereof.

Even if you plan to attend the special meeting in person, StemCells requests that you sign and return the enclosed proxy to ensure that your shares will be represented at the special meeting if you are unable to attend. You may change or revoke your proxy at any time before it is voted at the meeting.

Only stockholders of record of StemCells at the close of business on [ ], 2016, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting.

Your vote is very important. The affirmative vote of the holders of a majority of the shares of StemCells common stock entitled to vote on the matter, either in person or by proxy at the StemCells special meeting, is required for approval of Proposals Nos. 2 and 6. The affirmative vote of the holders of a majority of the outstanding shares of StemCells common stock entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting is required for approval of Proposals Nos. 1, 3, 4 and 5.

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If you do not vote or do not instruct your broker, bank or nominee how to vote, it will not affect the passage of Proposals Nos. 2, 6 and 7; however, broker non-votes will have the effect of a vote AGAINST Proposals Nos. 1, 3, 4 and 5.

It is important that your shares be represented and voted whether or not you plan to attend the special meeting in person. You may vote by completing and mailing the proxy card enclosed with the proxy statement, or if your shares are held in street name, meaning your shares are held of record by a broker, bank or other nominee, you may vote by instructing your broker, bank or nominee how to vote your shares using the voting instruction form furnished by your broker, bank or nominee. Submitting a proxy by mailing a proxy card or by instructing your broker, bank or nominee how to vote your shares will ensure your shares are represented at the special meeting.

Please vote promptly whether or not you expect to attend the StemCells special meeting.

APPROVAL OF THE FOREGOING PROPOSALS 1 THROUGH 5 IS NECESSARY TO COMPLETE THE MERGER. THE BOARD OF DIRECTORS OF STEMCELLS HAS APPROVED EACH PROPOSAL. THE BOARD OF DIRECTORS OF STEMCELLS UNANIMOUSLY RECOMMENDS THAT STEMCELLS STOCKHOLDERS VOTE FOR EACH PROPOSAL.

By Order of the Board of Directors of StemCells, Inc.,

Kenneth B. Stratton, Esq.

President & General Counsel

Newark, California

September [ ], 2016

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STEMCELLS, INC.

PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS

ABOUT THIS DOCUMENT

StemCells, Inc., which we refer to herein as the Company, StemCells, we, our, or us, is providing these proxy materials in connection with the solicitation of proxies by our Board of Directors to be voted at our special meeting of stockholders to be held at 2:00 p.m., local time, on October [ ], 2016, at 39899 Balentine Drive, Suite 200, Newark, CA 94560, or at any adjournment or postponement thereof. Commencing on or about September [ ], 2016, this proxy statement and the enclosed proxy card will be mailed to each stockholder entitled to notice of, and to vote at, the special meeting.

You should rely only on the information contained in this proxy statement. No one has been authorized to provide you with information that is different from that contained in or incorporated by reference into this proxy statement. This proxy statement is dated September [ ], 2016. You should not assume that the information contained in this proxy statement is accurate as of any other date. The mailing of this proxy statement to our stockholders will not create any implication to the contrary.

Unless otherwise expressly stated, the following information and all other information contained in this proxy statement does not give effect to the proposed reverse stock split described in Proposal No. 3, beginning on page 139 in this proxy statement. When this proxy statement refers to the combined company, it means StemCells and its subsidiaries and Microbot, collectively, assuming consummation of the Merger.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE STEMCELLS SPECIAL MEETING

The following are some questions that you may have regarding the Merger (as defined below) or the StemCells special meeting, together with brief answers to those questions. StemCells urges you to read carefully the remainder of this proxy statement, including the annexes and other documents referred to in this proxy statement, because the information in this section may not provide all of the information that might be important to you with respect to the Merger or the StemCells special meeting.

Q: What is the Merger?

A: StemCells and Microbot Medical Ltd., or Microbot, have entered into an Agreement and Plan of Merger and Reorganization, dated August 15, 2016, which we refer to as the Merger Agreement, that sets forth the terms and conditions of the proposed business combination of StemCells and Microbot. Under the Merger Agreement, C&RD Israel Ltd., a wholly owned subsidiary of StemCells (Merger Sub), will merge with and into Microbot, with Microbot surviving as a wholly owned subsidiary of StemCells (the Merger). A complete copy of the Merger Agreement is attached to this proxy statement as Annex A.

Q: Why are StemCells and Microbot proposing to effect the Merger?

A: The Board of Directors of each of StemCells and Microbot has unanimously approved the Merger Agreement and the Merger. The combination of the two companies will create a publicly traded company with plans to pursue the development of robotics-based medical devices for the treatment of cerebrospinal fluid and gastrointestinal disorders, as well as other conditions. The Board of Directors of StemCells believes that the Merger presents the best value opportunity available to StemCells stockholders at this time.

Q: Why am I receiving these materials?

A: StemCells is sending these materials to its stockholders to help them decide how to vote their shares of StemCells common stock, with respect to the proposed Merger and the other matters to be considered at the StemCells stockholder meeting.

This document contains important information about the Merger and the special meeting, so you should read it carefully.

Q: What will stockholders receive in the Merger?

A:

Upon completion of the Merger, StemCells stockholders will not receive any consideration in the Merger. Microbot shareholders will receive, for each common share of Microbot they hold, a number of shares of StemCells common stock equal to the exchange ratio, as such ratio is calculated pursuant to the formula set forth in the Merger Agreement (the Exchange Ratio) (see the section entitled The Merger Agreement Merger Consideration beginning on page 72). The Exchange Ratio is equal to three times the number of shares of StemCells common stock outstanding (after giving effect to the reverse stock split described in Proposal 3 and including all shares of StemCells common stock issuable upon the conversion of any convertible security and shares of StemCells common stock to be issued to certain advisors with respect to the Merger representing, in the aggregate, 20% of StemCells post-closing capitalization), divided by the number of Microbot ordinary shares outstanding, in each case calculated on a fully diluted basis immediately prior to the completion of the Merger, and will not be determined until that time. Following the closing of the Merger, StemCells stockholders will own approximately 5% of the combined company, with the remaining 95% of the combined company ownership comprised 75% of existing Microbot shareholders and 20% by certain advisors (which includes an existing Microbot shareholder) pursuant to Section 5.29 of the Merger Agreement in each case calculated on a fully diluted basis.

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For illustrative purposes only, if the Merger had been completed on August 15, 2016, the date of the Merger Agreement, the Exchange Ratio (without giving effect to the proposed reverse stock split described elsewhere in this proxy statement) would have been approximately [ ] shares of StemCells common stock for each Microbot ordinary share. Therefore, if the Merger had been completed on such date and you owned 1,000 shares of StemCells common stock as of such date, you will continue to hold 1,000 shares of the combined company following the completion of the Merger. As a percentage, if you hold 5% of the outstanding common shares of StemCells calculated on a fully diluted basis immediately prior to the completion of the Merger and do not also hold common shares of Microbot, then upon completion of the Merger you will hold an aggregate of approximately 0.25% of the outstanding shares of common stock of the combined company calculated on a fully diluted basis.

No fractional shares of StemCells common stock will be issued to Microbot shareholders in connection with the Merger. The number of whole shares of StemCells common stock to be issued to any holder of Microbot common shares will be rounded down to the nearest whole number of shares (after aggregating all fractional shares of StemCells common stock issuable to such holder).

Q: How will StemCells stockholders be affected by the Merger?

A: The Merger will have no effect on the number of shares of StemCells common stock held by current StemCells stockholders as of immediately prior to the completion of the Merger (subject to any changes in outstanding shares of StemCells common stock as a result of the reverse stock split described elsewhere in this proxy statement). However, it is expected that upon completion of the Merger such shares will represent only an aggregate of approximately 5% of the outstanding shares of common stock of the combined company calculated on a fully diluted basis.

For example, if you are a StemCells stockholder and hold 5% of the outstanding shares of StemCells common stock calculated on a fully diluted basis immediately prior to the completion of the Merger and do not also hold common shares of Microbot, then upon completion of the Merger you will hold an aggregate of approximately 0.25% of the outstanding shares of common stock of the combined company calculated on a fully diluted basis.

Q: Is the Exchange Ratio subject to adjustment based on changes in the price of StemCells common stock or value of Microbot common shares?

A: There will be no adjustments to the Exchange Ratio based on changes in the price of StemCells common stock or the value of Microbot common shares prior to the completion of the Merger. However, the Exchange Ratio will be adjusted in connection with the reverse stock split described in Proposal 3. As a result of any changes in stock price or value, the aggregate market value of the shares of StemCells common stock that the Microbot shareholders are entitled to receive at the time that the Merger is completed could vary significantly from the value of such shares on the date of this proxy statement, the date of the StemCells special meeting, the date of the Microbot special meeting, or the date on which the Microbot shareholders actually receive their shares of StemCells common stock.

For a more complete discussion of the Exchange Ratio, see the section entitled The Merger The Exchange Ratio beginning on page 68.

Q: How will the Merger affect StemCells business?

A: StemCells has recently undergone significant changes and will undergo additional significant changes in connection with the Merger. Currently, StemCells is not engaged in any research, development or production activities or any commercial activities. Following the Merger, the combined company s headquarters will be moved to Microbot s current principal executive offices located in Yokneam, Israel and the combined company will become an operating company dedicated to the development of robotics-based medical devices for the treatment of cerebrospinal fluid and gastrointestinal disorders, as well as other conditions. In addition, as a result of the Merger, former Microbot shareholders will possess majority

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control of the combined company, Microbot s current Board of Directors (or as otherwise designated by Microbot to enable the combined company to satisfy applicable NASDAQ and SEC independence and corporate governance requirements) will be the Board of Directors of the combined company, and members of the management of Microbot immediately prior to the closing of the Merger, along with newly appointed members of management, will be responsible for the management of the combined company.

For a more complete discussion of the existing businesses of StemCells and Microbot, see the sections entitled StemCells Business, StemCells Management s Discussion and Analysis of Financial Condition and Results of Operations, Microbot Business, and Microbot Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on pages 95, 96, 110, and 126, respectively. In addition, you should carefully review the section entitled Risk Factors beginning on page 20, which presents risks and uncertainties related to the Merger, the combined company following the completion of the Merger, and the business and operations of StemCells and Microbot.

Q: Will the shares of StemCells common stock received by Microbot shareholders in the Merger be subject to any transfer restrictions?

A: Yes. The shares of StemCells common stock received by Microbot shareholders in the Merger will not be registered pursuant to the Securities Act of 1933, as amended (the Securities Act). The shares will carry a restrictive legend and will be able to be resold only pursuant to Rule 144 under the Securities Act, another exemption from registration, or in the event there is subsequently an effective registration statement.

These restrictions on shares issued to Microbot shareholders in the Merger will not affect the transferability of shares already held by our existing stockholders. Our existing stockholders will be free to buy and sell shares of StemCells common stock on the open market as they currently do.

Q: What StemCells stockholder approvals are being solicited?

A: Each of the proposals contained in the notice is critical for StemCells to complete the Merger. Specifically, StemCells is seeking the following approvals in order to complete the Merger: (i) approval of the Merger Agreement, which approval requires the affirmative vote of a majority of the shares of StemCells common stock entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting (Proposal 1, which is referred to as the Merger Agreement Proposal); (ii) the issuance of StemCells common stock in connection with the Merger (Proposal 2, which is referred to as the Share Issuance Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock cast, either in person or by proxy, at the StemCells special meeting; (iii) an amendment to StemCells restated certificate of incorporation, as amended to date (the StemCells Certificate) to effect a reverse stock split of StemCells issued and outstanding common stock in the range presented in this Proxy Statement (Proposal 3, which is referred to as the Reverse Stock Split Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter; (iv) an amendment to the StemCells Certificate to increase the number of authorized shares of StemCells common stock from 200,000,000 to [ ] shares (Proposal 4, which is referred to as the Authorized Shares Increase Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to

vote on the matter; and (v) an amendment to the StemCells Certificate to change the name of StemCells from StemCells, Inc. to Microbot Medical Inc. (Proposal 5, which is referred to as the Name Change Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter. Proposals 1, 2, 3, 4 and 5 are collectively referred to herein as the StemCells Merger Proposals.

In connection with the execution of the Merger Agreement, the holders of approximately 1% of the total outstanding voting power of StemCells, as of August 15, 2016, entered into voting agreements with Microbot that provide, among other things, that they will vote in favor of the StemCells Merger Proposals and that grant to Microbot an irrevocable proxy to vote all of their shares of StemCells common stock in favor of the StemCells Merger Proposals.

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Q: What stockholder approvals are required for the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the StemCells Merger Proposals?

A: The holders of a majority of the shares of StemCells common stock cast must vote in favor of any adjournment of the StemCells special meeting regardless of whether a quorum is present.

Q: What other conditions must be satisfied or waived to complete the Merger?

A: In addition to obtaining stockholder approvals, each of the other closing conditions contained in the Merger Agreement must be either satisfied or waived. Among the closing conditions is the requirement that (i) the net cash of StemCells (which term is defined in the Merger Agreement) will not be less than zero, (ii) the StemCells common stock to be issued in the Merger has been approved for listing on the NASDAQ Capital Market, (iii) Microbot shall have obtained the approval of the transactions contemplated by the Merger Agreement, including the Merger, of the Office of Chief Scientist at the Israeli Ministry of Economy, and (iv) no event has occurred that would constitute a material adverse effect on the assets, liabilities, business, or results of operations of StemCells or Microbot.

For a more complete discussion of the conditions to the completion of the Merger under the Merger Agreement, see the section entitled The Merger Agreement Conditions to the Completion of the Merger beginning on page 84.

Q: What is the reverse stock split and why is it necessary?

A: It is expected that immediately prior to the effective time of the Merger, StemCells will effect a reverse stock split. The Merger constitutes a reverse merger under applicable marketplace rules established by The NASDAQ Stock Market LLC, which requires the combined company to comply with the initial listing standards of the applicable NASDAQ market to continue to be listed on such market following the Merger. StemCells common stock is required to be listed on the NASDAQ Capital Market as a condition to closing the Merger. The NASDAQ Capital Market s initial listing standards require a company to have, among other things, a $4.00 per share minimum bid price. Because the current per share price of StemCells common stock is less than $4.00, the reverse stock split is necessary to meet the minimum bid listing requirement.

Q: Why is StemCells seeking to amend the StemCells Certificate to increase the number of authorized shares of its common stock?

A: In addition to the shares needed to complete to the Merger, the Board of Directors of StemCells desires to have additional shares available to provide flexibility to use its common stock for business and financial purposes in the future.

Q:

Why is StemCells seeking to amend the StemCells Certificate to change the name of StemCells from StemCells, Inc. to Microbot Medical Inc. ?

A: Both StemCells and Microbot believe that the name change will allow for recognition of the combined company s business following the completion of the Merger. The current name will no longer accurately reflect the business of the combined company and the mission of the combined company after the completion of the Merger.

Q: When do StemCells and Microbot expect to complete the Merger?

A: StemCells and Microbot expect to complete the Merger as soon as possible following the approval of the StemCells Merger Proposals, assuming the satisfaction or waiver of all other closing conditions contained in the Merger Agreement. It is possible, therefore, that factors outside of each company s control could require them to complete the Merger at a later time or not complete it at all.

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Q: What risks should I consider in deciding whether to vote in favor of the StemCells Merger Proposals?

A: You should carefully review the section of this proxy statement entitled Risk Factors beginning on page 20, which presents risks and uncertainties related to the proposed Merger, the combined company, and the business and operations of each of StemCells and Microbot.

Q: What are the material U.S. federal income tax consequences of the Merger to me?

A: Because StemCells stockholders will continue to own and hold their existing shares of StemCells common stock following the Merger, the Merger generally will not result in U.S. federal income tax consequences to current StemCells stockholders.

Q: Do I have appraisal rights in connection with the Merger?

A: StemCells. Under the Delaware General Corporation Law (the DGCL), holders of StemCells common stock are not entitled to appraisal rights in connection with the Merger or the proposals described in this proxy statement.
Microbot. Under Israeli law, pursuant to which the Merger is being consummated, holders of Microbot common shares are not entitled to appraisal rights or their equivalent in connection with the Merger.

Q: When and where will the StemCells special meeting take place?

A: The StemCells special meeting will be held on October [ ], 2016 at 2:00 p.m., local time, at 39899 Balentine Drive, Suite 200, Newark, CA 94560.

Q: Who can attend and vote at the stockholder meeting?

A: All StemCells stockholders of record as of the close of business on [ ], 2016, the record date for the StemCells special meeting, are entitled to receive notice of and to vote at the StemCells special meeting.

Q: What do I need to do now and how do I vote?

A: StemCells urges you to read this proxy statement carefully, including its annexes, and to consider how the Merger may affect you.
By mail. You may vote by mailing your signed StemCells proxy card in the enclosed return envelope. Please provide your proxy instructions only once and as soon as possible so that your shares can be voted at the StemCells special meeting.

By Internet or by telephone. Follow the instructions on the StemCells proxy card to vote by Internet or telephone.

In person at the meeting. If you attend the StemCells special meeting, you may deliver your completed StemCells proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

Q: What happens if I do not return a proxy card or if I elect to abstain from voting?

A: If you fail to submit a proxy card, your shares will not be counted as present for the purpose of determining the presence of a quorum, which is required to transact business at the StemCells special meeting, and your failure to take action will have no effect on the outcome of StemCells Proposal Nos. 2 (Share Issuance Proposal) and 6 (Adjournment to Solicit Additional Proxies, If Necessary). However, such failure to take action will have the same effect as voting AGAINST StemCells Proposal Nos. 1 (Merger Agreement Proposal), 3 (Reverse Stock Split Proposal), 4 (Authorized Shares Increase Proposal) and 5 (Name Change Proposal).

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If you are a StemCells stockholder and you sign, date, and mail your proxy card without indicating how you wish to vote, your proxy will be counted as present for the purpose of determining the presence of a quorum for the StemCells special meeting and all of your shares will be voted FOR StemCells Proposal Nos. 1, 2, 3, 4, 5, and 6. However, if you submit a proxy card and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum for the StemCells special meeting, but will not be voted at the StemCells special meeting. As a result, your abstention will have the same effect as voting AGAINST StemCells Proposal Nos. 1, 2, 3, 4, 5, and 6.

Q: If my StemCells shares are held in street name by a broker or other nominee, will my broker or nominee vote my shares for me?

A: If your StemCells shares are held in street name in a stock brokerage account or by another nominee, you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your broker or other nominee. Please note that you may not vote shares held in street name by returning a proxy card directly to StemCells or by voting in person at the StemCells special meeting unless you provide a legal proxy, which you must obtain from your broker or other nominee. Obtaining a proxy from your broker or other nominee can take several days, so you are encouraged to plan accordingly.

Q: May I vote in person?

A: If your shares of StemCells common stock are registered directly in your name with StemCells transfer agent, you are considered, with respect to those shares, the stockholder of record, and the proxy materials and proxy card are being sent directly to you by StemCells. If you are a StemCells stockholder of record, you may attend the StemCells special meeting and vote your shares in person, rather than signing and returning your proxy card.

If your shares of StemCells common stock are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you are also invited to attend the StemCells special meeting. However, because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the StemCells special meeting unless you obtain a legal proxy from the broker or other nominee that holds your shares giving you the right to vote the shares in person at the applicable stockholder meeting.

Q: May I revoke or change my vote after I have provided proxy instructions?

A: Yes. You may revoke or change your vote at any time before your proxy is voted at the StemCells special meeting. You can do this in one of four ways. First, you can send a written notice to StemCells stating that you would like to revoke your proxy. Second, you can submit new proxy instructions on a new proxy card. Third, if you have voted by Internet or telephone, by casting a new vote over the Internet or by telephone. Fourth, you can attend the StemCells special meeting and vote in person. Your attendance alone at the stockholder meeting will not revoke your proxy. If you have instructed a broker or other nominee to vote your shares, you must follow directions received from your broker or other nominee in order to change those instructions.

Q: What constitutes a quorum?

A: As of September [ ], 2016, there were 16,259,598 shares of StemCells outstanding. Stockholders who hold a majority of the shares of StemCells common stock outstanding as of the close of business on the record date for the StemCells special meeting must be present, either in person or by proxy, in order to constitute a quorum to conduct business at the StemCells special meeting.

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Q: Who is paying for this proxy solicitation?

A: StemCells will bear the cost and expense of preparing, assembling, printing, and mailing this proxy statement, any amendments thereto, the proxy card, and any additional information furnished to the StemCells stockholders, including any fees paid to the SEC. StemCells may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their costs of soliciting and obtaining proxies from beneficial owners, including the costs of reimbursing brokerage houses and other custodians, nominees and fiduciaries for their costs of forwarding this proxy statement and other solicitation materials to beneficial owners. In addition, proxies may be solicited without extra compensation by directors, officers and employees of StemCells by mail, telephone, fax, or other methods of communication. StemCells has retained Okapi Partners (Okapi) to assist StemCells in the solicitation of proxies from StemCells stockholders in connection with the StemCells special meeting. Okapi will receive an initial start-up payment of $6,500 and a per unit fee for each call completed and each vote obtained as compensation for its services, plus reimbursement of out of pocket expenses. StemCells has agreed to indemnify Okapi against certain liabilities arising out of or in connection with its engagement.

Q: Whom should I contact if I have any questions about the Merger or the StemCells special meeting?

A: If you have any questions about the Merger or the StemCells special meeting, or if you need assistance in submitting your proxy or voting your shares or need additional copies of this proxy statement or the enclosed proxy card, you should contact StemCells or Okapi at the applicable address and telephone number listed below:

Okapi Partners

1212 Avenue of the Americas

24th Floor

New York, New York 10036

Attention Charles W. Garske

Stockholders Call Toll-Free: (877) 259-6290

Q: What happens if I sell my shares after the record date but before the special meeting?

A: If you transfer your StemCells common stock after the record date but before the date of the special meeting, you will retain your right to vote at the special meeting (provided that such shares remain outstanding on the date of the special meeting).

Q: What do I do if I receive more than one proxy statement or set of voting instructions?

A: If you hold shares directly as a record holder and also in street name or otherwise through a nominee, you may receive more than one proxy statement and/or set of voting instructions relating to the StemCells special meeting. These should each be voted and/or returned separately in order to ensure that all of your shares are voted.

Q: Should I send in my stock certificates?

A: No. StemCells stockholders are not required to tender or exchange their stock certificates as part of the Merger. However, you will receive written instructions from Computershare Limited, StemCells transfer agent, for exchanging your StemCells stock certificates in connection with the reverse stock split.

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SUMMARY

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To better understand the Merger and the proposals being considered at the Special Meeting, you should read this entire proxy statement carefully, including the Merger Agreement attached as Annex A, the opinion of Carabiner LLC attached as Annex B and the other annexes to which you are referred herein. For more information, please see the section entitled Where You Can Find More Information beginning on page 165.

The Companies

StemCells, Inc.

StemCells was formed to engage in the research, development and commercialization of stem cell therapeutics. On May 31, 2016, StemCells announced the decision to terminate its Phase II Pathway Study in spinal cord injury after determining that the magnitude of the effect on patients did not justify continuing the study or exploring the variability in the initial patient observations. At the same time, StemCells announced an intention to initiate an orderly wind down of the company.

Microbot Inc.

Microbot was incorporated on November 10, 2010 under the Israel Business Corporations Act. Microbot is a pre-clinical medical device company specializing in the research, design and development of next generation micro-robotics assisted medical technologies targeting the minimally invasive surgery space. Microbot is primarily focused on leveraging its micro-robotic technologies with the goal of improving surgical outcomes for patients.

Microbot is currently developing its first two product candidates: the Self Cleaning Shunt, or SCS, for the treatment of hydrocephalus and Normal Pressure Hydrocephalus, or NPH; and TipCAT, a self-propelling, semi-disposable endoscope that is being developed initially for use in colonoscopy procedures. Microbot s product candidates are being designed to bring greater functionality to conventional medical devices and to reduce the known risks associated with such devices. Microbot is currently aiming to complete pre-clinical or clinical data collection for both product candidates within the next 24 months and is targeting approval or clearance for SCS by late 2018.

Microbot currently holds an intellectual property portfolio that comprises nine patent families, which include eight patents granted in the United States, eleven patents granted outside the United States, and 17 patent applications pending worldwide, with other patent applications under development, as well as an exclusive license to key components of its technology.

C&RD Israel Ltd.

C&RD Israel Ltd. is a wholly-owned subsidiary of StemCells, and was formed solely for the purposes of carrying out the Merger.

The Merger

StemCells and Microbot have entered into the Merger Agreement, which provides that, subject to the terms and conditions contained therein, at the effective time of the Merger, Merger Sub will merge with and into Microbot, with Microbot continuing as the surviving corporation and as a wholly owned subsidiary of StemCells. Each of the Board of Directors of StemCells and Microbot has unanimously approved the Merger.

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Recommendations of the Board of Directors of StemCells and its Reasons for the Merger

The Board of Directors of StemCells, after considering the factors described in the section entitled The Merger Reasons for the Merger beginning on page 58, has approved the Merger Agreement and the transactions contemplated thereby, including the Merger. The Board of Directors of StemCells has determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable and fair to, and in the best interests of, StemCells and its stockholders, and therefore recommends that the StemCells stockholders vote FOR the Merger Agreement Proposal, FOR the Share Issuance Proposal, FOR the Reverse Stock Split Proposal, FOR the Authorized Shares Increase Proposal, and FOR the Name Change Proposal, as contemplated by the Merger Agreement and as described in this proxy statement. For a more complete discussion of the recommendations of the Board of Directors of StemCells and its reasons for the Merger, see the section entitled The Merger Reasons for the Merger beginning on page 58.

Opinion of the Financial Advisor to the StemCells Board of Directors

Carabiner, LLC, or Carabiner, the Company s financial advisor with respect to the Merger transaction, delivered to the Board of Directors of StemCells a written opinion dated August 14, 2016, as of that date and subject to and based on the assumptions made, procedures followed, matters considered, limitations of the review undertaken and qualifications contained in the written opinion, as to the fairness, from a financial point of view, to StemCells of the consideration to be paid in the Merger. The full text of this written opinion provided to the Board of Directors of StemCells, which describes, among other things, the assumptions made, procedures followed, factors considered, qualifications and limitations on the review undertaken, is attached as Annex B to this proxy statement and is incorporated by reference in its entirety. Holders of StemCells common stock are encouraged to read the opinion carefully in its entirety. **The Carabiner opinion was provided to the Board of Directors of StemCells in connection with its evaluation of the consideration provided for in the Merger. It does not address any other aspect of the Merger or any alternative to the Merger and does not constitute a recommendation as to how any stockholders of StemCells should vote or act in connection with the Merger or otherwise.**

Overview of the Merger Agreement

Merger Consideration (see page 68)

At the effective time of the Merger, each share of then-outstanding capital stock of Microbot (other than shares held by Microbot, StemCells or any of StemCells subsidiaries, which will be cancelled at the completion of the Merger) will automatically be converted into the right to receive the number of shares of StemCells common stock equal to the Exchange Ratio (as defined in The Merger Agreement Merger Consideration on page 72).

As a result, following the completion of the Merger, former shareholders of Microbot are expected to receive shares of StemCells common stock representing approximately 75% of the outstanding shares of StemCells common stock calculated on a fully diluted basis and current stockholders of StemCells are expected to own approximately 5% of the outstanding shares of StemCells common stock calculated on a fully diluted basis. Shares representing 20% of the outstanding shares of StemCells common stock following the completion of the Merger will be issued to certain advisors with respect to the Merger. The foregoing percentages do not take into account shares of StemCells common stock held by Microbot shareholders prior to the completion of the Merger.

Conditions to Completion of the Merger (see page 86)

To complete the merger, StemCells stockholders must approve and adopt the Merger Agreement, approve the issuance of shares of StemCells common stock to advisors and to Microbot shareholders in connection with

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the Merger and approve an amendment to the restated certificate of incorporation of StemCells effecting the proposed reverse stock split. In addition to obtaining such stockholder approvals, each of the other closing conditions set forth in the Merger Agreement must be satisfied or waived.

No Solicitation (see page 81)

The Merger Agreement contains provisions prohibiting StemCells and Microbot from seeking a competing transaction, as defined by the Merger Agreement, and subject to specified exceptions described in the Merger Agreement. Under these no solicitation provisions, each of StemCells and Microbot has agreed, subject to specified exceptions, that neither it nor its subsidiaries, if applicable, nor any of its officers, directors, employees, agents, or other representatives will directly or indirectly:

- solicit, initiate, or knowingly encourage, facilitate, induce, or take any other action that would reasonably be expected to lead to the making, submission, or announcement of any proposal or inquiry that constitutes, or is reasonably likely to lead to, a competing proposal
- enter into, continue, or participate in any discussions or any negotiations regarding any competing proposals or otherwise take any action to knowingly facilitate or induce any effort or attempt to make or implement an competing proposal;
- approve, endorse, enter into, or recommend a competing proposal or any letter of intent or contract contemplating a competing proposal or requiring the abandonment or termination of obligations under the Merger Agreement; or
- agree, resolve or commit to do any of the foregoing.

Termination of the Merger Agreement (see page 86)

Either StemCells or Microbot can terminate the Merger Agreement under certain circumstances, which would prevent the Merger from being completed.

Termination Fees and Expenses (see page 87)

The Merger Agreement provides that all fees and expenses incurred in connection with the Merger Agreement and the transactions contemplated by the Merger Agreement will be paid by the party incurring such expenses whether or not the Merger is consummated.

Microbot Private Placement

Pursuant to the Merger Agreement, Microbot is obligated to raise no less than $4.0 million in one or more private placements prior to the closing of the Merger (the Microbot Private Placement), which amount would provide the combined company with at least 18 months of cash to fund operations post-closing, assuming a minimum net cash amount in StemCells at closing (as defined in the Merger Agreement) of not less than $0.

On August 15, 2016, Microbot and Alpha Capital Anstalt (the Investor), entered into an agreement pursuant to which, among other things, the Investor agreed to fund the Microbot Private Placement, which obligation shall be reduced dollar-for-dollar by any third party investors investing in the Microbot Private Placement.

Voting Agreements

In connection with the execution of the Merger Agreement, directors and executive officers of StemCells, who in the aggregate, own approximately 1% of StemCells outstanding shares, entered into a voting agreement

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with Microbot under which such stockholders agreed to vote in favor of the proposals that relate to the Merger described elsewhere in this proxy statement and against any alternative acquisition proposal, agreement or transaction. The voting agreement grants Microbot irrevocable proxies to vote any shares of StemCells common stock over which such stockholder has voting power in favor of each of the proposals described elsewhere in this proxy statement and against any alternative acquisition proposal, agreement or transaction.

Certain shareholders of Microbot owning approximately 68%of the voting power of Microbot on an as-converted basis also entered into voting agreements with StemCells under which such shareholders agreed to vote in favor of the Merger and against any alternative acquisition proposal, agreement or transaction. The shareholders of Microbot will vote on whether to approve the Merger on September 14, 2016.

Each director, executive officer and stockholder, as applicable, upon executing his, her, or its voting agreement has made representations and warranties to StemCells and Microbot, as applicable, regarding ownership and unencumbered title to the shares thereto, such stockholder s power and authority to execute the voting agreement, and due execution and enforceability of the voting agreement. Unless otherwise waived, until the earlier of the closing of the Merger or the termination of the Merger Agreement, all of these voting agreements prohibit the sale, assignment, transfer or other disposition by the stockholder of his, her, or its respective shares of StemCells or Microbot stock, as applicable, or the entrance into an agreement or commitment to do any of the foregoing, except for transfers by will or by operation of law, in which case the voting agreement will bind the transferee.

The voting agreements will terminate at the earlier of the effective time of the Merger, termination of the Merger Agreement in accordance with its terms or upon mutual written consent of such stockholder, StemCells and Microbot.

Management Following the Merger

Microbot s current Board of Directors (or as otherwise designated by Microbot to enable the combined company to satisfy applicable NASDAQ and SEC independence and corporate governance requirements) will be the Board of Directors of the combined company, and members of the management of Microbot immediately prior to the closing of the Merger, along with any newly appointed members of management, will be responsible for the management of the combined company.

Interests of Certain Directors, Officers and Affiliates of StemCells

In considering the recommendation of the Board of Directors of StemCells with respect to issuing shares of StemCells common stock pursuant to the Merger Agreement and the other matters to be acted upon by StemCells stockholders at the special meeting, StemCells stockholders should be aware the named executive officers of StemCells have interests in the Merger that may be different from, or in addition to, interests they have as StemCells stockholders. The Board of Directors of StemCells was aware of the following interests and considered them, among other matters, in its decision to approve the Merger Agreement.

Indemnification

Following the completion of the Merger, the directors and executive officers of StemCells will have the right to continued indemnification to the same extent that StemCells is currently permitted to indemnify such persons against certain losses pertaining to matters existing or occurring prior to the effective time.

Material U.S. Federal Income Tax Consequences of the Merger

Each of StemCells and Microbot intends the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to as the Code. Because

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StemCells stockholders will continue to own and hold their existing shares of StemCells common stock following the Merger, the Merger generally will not result in U.S. federal income tax consequences to current StemCells stockholders. StemCells stockholders who are also shareholders of Microbot should consult their tax advisor as to the tax consequences to them of participating in the Merger as a Microbot shareholder.

Risk Factors

The Merger, including the possibility that the Merger may not be completed, poses a number of risks to each company s respective stockholders, including the following:

- the issuance of shares of StemCells common stock to advisors and to Microbot shareholders in connection with the Merger will substantially dilute the voting power of current StemCells stockholders;
- StemCells stockholders may not realize a benefit from the Merger commensurate with the ownership dilution they will experience in connection with the Merger;
- the lack of a public market for Microbot shares makes it difficult to determine the fair market value of Microbot, and the merger consideration to be issued to Microbot shareholders may exceed the actual value of Microbot;
- StemCells stockholders will have a reduced ownership and voting interest in, and will exercise less influence over the management of, the combined company following the completion of the Merger;
- the announcement and pendency of the Merger could have an adverse effect on StemCells or Microbot s financial condition or business prospects;
- failure to complete the Merger may adversely affect StemCells and Microbot s financial results, future business and operations, as well as the market price of StemCells common stock;
- some of the directors and executive officers of StemCells and Microbot have interests in the Merger that may be different from, or in addition to, those of the other StemCells stockholders and Microbot shareholders;
- StemCells and Microbot will incur substantial transaction-related costs in connection with the Merger;
- if StemCells fails to continue to meet all applicable NASDAQ Capital Market requirements and the NASDAQ Stock Market determines to delist StemCells common stock, the delisting would impair StemCells ability to complete the Merger;

failure to complete the Merger may result in StemCells having insufficient funds to satisfy its existing trade payables and other liabilities, and may result in its petitioning for bankruptcy court protection; and

even if the Merger is consummated, StemCells and Microbot may fail to realize the anticipated benefits of the Merger.

In addition, StemCells, Microbot, and the combined company are subject to various risks associated with their businesses. These risks are discussed in greater detail in the section entitled Risk Factors beginning on page 20. StemCells encourages you to read and consider all of these risks carefully.

Regulatory Approvals

Pursuant to Israeli Encouragement of Industrial Research and Development Law, 1984, including the regulations promulgated thereunder and the approvals provided to Microbot pursuant thereto, Microbot is required to obtain the approval of the Israeli Office of Chief Scientist at the Israeli Ministry of Economy for the consummation of the Merger.

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As of the date of this proxy statement, neither StemCells nor Microbot is required to make filings or to obtain approvals or clearances from any antitrust regulatory authorities in the United States or other countries to complete the Merger. In the United States, StemCells must comply with applicable federal and state securities laws and the rules and regulations of the NASDAQ Capital Market in connection with the issuance of shares of StemCells common stock and the resulting change in control of StemCells and the filing of this proxy statement with the SEC. In Israel, because Microbot received certain grants from the Office of Chief Scientist at the Israeli Ministry of Economy, which is referred to as the OCS, Microbot must obtain OCS approval for any change in control transaction, such as the Merger. As a pre-condition to such approval, StemCells would need to sign and deliver to the OCS an undertaking to comply, and cause the combined company to comply, following the Merger, with the OCS laws and regulations in respect of the grants Microbot received. In addition, Microbot and Merger Sub must comply, in connection with the Merger, with the Israeli Companies Law and the regulations promulgated thereunder (the ICL) and, *inter alia*, submit the Israeli Companies Registrar all the necessary documents in order that the Israeli Companies Registrar will declare the Merger effective and issue a certificate of merger.

NASDAQ Stock Market Listing

StemCells common stock currently is listed on the NASDAQ Capital Market STEM. StemCells has agreed to use its reasonable best efforts to cause the shares of StemCells common stock to be approved, at or prior to the completion of the Merger, for listing (subject only to notice of issuance) on the NASDAQ Capital Market at and following the completion of the Merger. The listing of the shares of StemCells common stock issuable in the Merger on the stock exchange is a condition to Microbot s and StemCells obligation to complete the Merger.

StemCells has filed an initial listing application for the NASDAQ Capital Market in connection with the Merger pursuant to NASDAQ reverse merger rules. If such application is approved, StemCells anticipates that its common stock will continue to be listed on the NASDAQ Capital Market following the completion of the Merger. It is expected that at or following the Merger, the trading symbol of the combined company will be changed. Microbot has requested the ticker symbol MBOT for this purpose.

No Appraisal Rights or Dissenters Rights

Holders of StemCells common stock are not entitled to appraisal rights in connection with the Merger. Holders of Microbot stock are also not entitled to appraisal rights in connection with the Merger.

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SELECTED HISTORICAL AND UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

The following tables present summary historical financial data for StemCells and Microbot, summary unaudited pro forma condensed financial data for StemCells and Microbot, and comparative historical and unaudited pro forma per share data for StemCells and Microbot. The following tables do not give effect to the proposed reverse stock split described in this proxy statement.

Selected Historical Financial Data of StemCells

The following table summarizes StemCells consolidated financial data as of the dates and for each of the periods indicated. The selected financial data as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 are derived from the StemCells audited consolidated financial statements and notes thereto appearing in StemCells Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 15, 2016, or the StemCells 10-K. The selected financial data as of December 31, 2013, 2012, and 2011 and for the years ended December 31, 2012 and 2011 are derived from StemCells audited consolidated financial statements for the respective periods, which are not included or incorporated by reference in this proxy statement. The selected financial data as of June 30, 2016 and for the six months ended June 30, 2016 and 2015 are derived from the StemCells unaudited financial statements and related notes appearing in StemCells Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the SEC on August 15, 2016, or the StemCells 10-Q. This financial data should be read in conjunction with StemCells Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto appearing in the StemCells 10-K and the StemCells 10-Q. StemCells historical results are not necessarily indicative of the results that may be expected in the future.

	Six Months ended June 30,		Fiscal Year ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)						
Consolidated Statements of Operations:							
Revenue from licensing agreements and grants	$ 52	$ 51	$ 117	$ 1,012	$ 172	$ 490	$ 558
Research and development expenses	8,903	13,531	27,111	21,503	19,369	14,682	18,402
General and administrative expenses	6,044	4,753	9,334	10,420	8,834	7,360	8,143
Wind-down expenses(1)	3,803		392		62	356	287
Impairment of intangible asset			239	2,440			655
Write-down of fixed assets(2)	3,333						
Gain (loss) on change in fair value of warrant liabilities(3)	5,847	641	914	2,422	3,253	(5,945)	6,612
Conversion of CIRM loan into grant(4)	8,917						
	(7,046)	(17,812)	(36,415)	(32,261)	(25,987)	(27,971)	(20,183)

Net loss from continuing operations							
Discontinued Operations:(5)							
Net loss from discontinued operations				(369)	(452)	(520)	(1,146)
Net loss from disposal of assets				(111)			
Basic and diluted loss per share:							
From continuing operations	$ (0.66)	$ (2.60)	$ (4.56)	$ (6.28)	$ (7.18)	$ (11.64)	$ (17.07)
From discontinued operations				(0.09)	(0.12)	(0.22)	(0.97)
Shares used in computing basic and diluted loss per share amounts*	10,746	17,812	7,984	5,134	3,619	2,402	1,182

* *Adjusted for the 1-for-12 reverse stock split in May 2016.*

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	June 30,		December 31,				
	2016	2015	2015	2014	2013	2012	2011
					(In thousands)		
Consolidated Balance Sheets							
Cash and cash equivalents	$ 2,449	$ 29,929	$ 12,111	$ 24,988	$ 30,585	$ 8,471	$ 13,311
Restricted cash(6)			2,422				
Marketable securities						13,901	3,281
Assets held for sale(2)	1,450						
Total assets	6,325	36,981	21,219	32,427	41,557	30,170	25,205
Accrued wind-down expenses(1)	3,943		392			1,103	2,135
Fair value of warrant liabilities(3)	591	1,044	771	1,685	5,542	9,265	6,042
Long-term debt, including capital leases(7)		12,428	10,370	10,343	9,274	138	331
Stockholders equity (deficit)	(4,888)	15,260	(334)	5,871	14,954	13,985	10,725

(1) For 2016, relates to the wind down of our current operations, given the decision to terminate our current clinical studies, our available strategic alternatives and our current cash position. For 2015, relates to restructuring costs under our strategic realignment plan. For 2013, 2012 and 2011, relates to wind-down and exit expenses in respect of our Rhode Island facility.

(2) Following the decision to wind down our current operations, on June 30, 2016 we wrote down our tangible assets to their realizable value.

(3) Relates to the fair value of warrants issued as part of our financing in 2011 and 2016.

(4) Relates to our loan agreement with CIRM, pursuant to which in May 2016, we gave notice to CIRM that we elected to convert our loan into a Grant pursuant to the CIRM s Loan Administration Policy, as amended effective April 25, 2016, and as if the forgiven loan balance had been total allowable project costs funded by CIRM. In the second quarter of 2016, we re-classified the principal amount of approximately $8,917,000 as Other income and the accrued interest of approximately $243,000 as Gain on extinguishment of a loan in our Condensed Consolidated Statement of Operations.

(5) In December 2014, we sold and completed the wind down of our subsidiary SCS UK s operations in Cambridge, United Kingdom and therefore, have classified the historical results of this component as a discontinued operation.

(6) Relates to our loan payable with Silicon Valley Bank.

(7) Data for 2015, 2014 and 2013 relates to the loan agreements with Silicon Valley Bank and the California Institute for Regenerative Medicine.

Selected Unaudited Pro Forma Combined Financial Data of StemCells and Microbot

The following selected unaudited pro forma combined financial data is intended to show how the merger might have affected the historical financial results of StemCells and Microbot. The selected unaudited pro forma combined balance sheet data assumes that the merger took place on June 30, 2016 and combines the historical balance sheets of StemCells and Microbot as of such date. The unaudited pro forma statement of operations data assumes that the Merger took place on each of January 1, 2016 and January 1, 2016 and combines the historical statements of operations of StemCells and Microbot for the periods ended June 30, 2016 and December 31, 2015. The following should be read in conjunction with the sections entitled Unaudited Pro Forma Combined Financial Statements beginning on page 148, StemCells Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 96, Microbot Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 126, Microbot s audited and unaudited

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historical financial statements and the notes thereto contained elsewhere in this proxy statement and the other information in this proxy statement. The following information does not give effect to the proposed reverse stock split of StemCells common stock described in Proposal 3.

The historical financial statements of StemCells and Microbot have been adjusted to give pro forma effect to events that are (i) directly attributable to the Merger, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma combined financial statements do not give effect to the potential impact of current financial conditions, regulatory matters, operating efficiencies or other savings or expenses that may be associated with the integration of the two companies. The unaudited pro forma combined financial statements have been prepared for illustrative purposes only and are not necessarily indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Microbot and StemCells been a combined company during the specified period.

Unaudited Pro Form Combined Balance Sheet Data:	**As of June 30, 2016**
Cash and cash equivalents	$ 5,289,614
Total assets	42,428,096
Total liabilities	13,427,170
Total stockholders equity	29,000,926

Unaudited Pro Forma Combined Statements of Operations Data:	**Six months ended June 30, 2016**	**Year ended December 31, 2015**
Operating expenses	$ 19,152,930	$ 37,752,090
Loss from operations	(19,100,455)	(37,635,203)
Net loss	(7,486,186)	(37,335,866)
Basic and diluted net loss per share	$ (0.02)	$ (0.11)

Comparative Historical and Unaudited Pro Forma Per Share Data

The information below reflects the historical net loss and book value per share of StemCells common stock and the historical net loss and book value per ordinary share of Microbot in comparison with the unaudited pro forma net loss and book value per share after giving effect to the Merger. The unaudited pro forma net loss and book value per share does not give effect to the reverse stock split of StemCells common stock described in Proposal 3.

You should read the tables below in conjunction with the StemCells audited and unaudited financial statement and notes thereto included in the StemCells 10-K and the StemCells 10-Q, the Microbot audited and unaudited financial statements and notes thereto included elsewhere in this proxy statement, and the unaudited pro forma combined financial information and notes related to such financial statements included elsewhere in this proxy statement.

StemCells	**Six months ended**	**Year Ended December 31,**

	June 30, 2016	2015
Historical Per Common Share Data:		
Basic and diluted net loss per share	$ (0.66)	$ (4.56)
Book value per share	$ (0.45)	$ (0.04)

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Microbot	Six months ended June 30, 2016	Year Ended December 31, 2015
Historical Per Common Share Data:		
Basic and diluted net loss per share	$ (0.10)	$ (0.20)
Book value per share	$ (0.11)	$ (0.01)

StemCells and Microbot	Six months ended June 30, 2016	Year Ended December 31, 2015
Historical Per Common Share Data:		
Basic and diluted net loss per share	$ (0.02)	$ (0.11)
Book value per share	$ 0.08	$

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MARKET PRICE AND DIVIDEND INFORMATION

Our common stock is listed on the NASDAQ Capital Market under the symbol STEM. As of [ ], 2016, the record date, we had [ ] shares of common stock outstanding and approximately 241 registered stockholders. The last reported sales price of our common stock on September 9, 2016, the last full trading day prior to the date of this proxy statement, was $1.33 per share.

Set forth below are the high and low sales prices for our common stock as reported on the NASDAQ Capital Market for the two most recently completed fiscal years, and the first, second and third fiscal quarters of the current fiscal year:

	Low(1)	High(1)
2014		
First Quarter	$ 15.48	19.08
Second Quarter	$ 14.16	25.68
Third Quarter	$ 15.12	28.08
Fourth Quarter	$ 10.20	15.48
2015		
First Quarter	$ 11.76	16.56
Second Quarter	$ 6.00	12.12
Third Quarter	$ 4.56	7.08
Fourth Quarter	$ 4.68	6.60
2016		
First Quarter	$ 3.00	5.16
Second Quarter	$ 4.44	0.33
Third Quarter (through September 9, 2016)	$ 2.99	0.34

(1) Adjusted for the Company s one-for-twelve reverse stock split of outstanding shares on May 9, 2016.

We have never paid any dividends on our common stock and have no intention to do so for the foreseeable future.

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RISK FACTORS

The combined company will face an unpredictable market environment that involves significant risks, many of which will be beyond its control. In addition to the other information contained in this proxy statement, you should carefully consider the material risks described below before deciding how to vote your shares of StemCells common stock at the StemCells special meeting. These factors should be considered in conjunction with the other information included by StemCells and Microbot in this proxy statement. If any of the risks described below or referred to in this proxy statement actually materialize, the business, financial condition, results of operations, or prospects of StemCells, Microbot, and/or the combined company, or the stock price of the combined company, could be materially and adversely affected.

Risks Relating to the Merger

The issuance of shares of StemCells common stock to advisors and to Microbot shareholders in connection with the Merger will substantially dilute the voting power of current StemCells stockholders, and as a result the StemCells stockholders will exercise less influence over the management of the combined company following the completion of the Merger.

Pursuant to the terms of the Merger Agreement, it is anticipated that StemCells will issue shares of StemCells common stock advisors. Following the closing of the Merger, StemCells stockholders will own approximately 5% of the combined company, with the remaining 95% of the combined company ownership comprised 75% of existing Microbot shareholders and 20% by certain advisors (which includes an existing Microbot shareholder) pursuant to Section 5.29 of the Merger Agreement in each case calculated on a fully diluted basis. Accordingly, the issuance of shares of StemCells common stock to Microbot shareholders and advisors in connection with the Merger will significantly reduce the relative voting power of each share of StemCells common stock held by current StemCells stockholders. In addition, the board of directors of the combined company will be designated by Microbot. Consequently, StemCells stockholders will be able to exercise substantially less influence over the management and policies of the combined company than they currently exercise over the management and policies of StemCells.

StemCells stockholders may not realize a benefit from the Merger commensurate with the ownership dilution they will experience in connection with the Merger.

If the combined company is unable to realize the full strategic and financial benefits anticipated from the Merger, StemCells stockholders will have experienced substantial dilution of their ownership interests without receiving any commensurate benefit, or only receiving part of the commensurate benefit to the extent the combined company is able to realize only part of the strategic and financial benefits currently anticipated from the Merger.

Microbot is not a publicly traded company, making it difficult to determine the fair market value of Microbot.

The outstanding capital stock of Microbot is privately held and is not traded on any public market, which makes it difficult to determine the fair market value of Microbot. There can be no assurances that the merger consideration to be issued to Microbot shareholders will not exceed the actual value of Microbot.

The conditions under the Merger Agreement to Microbot s consummation of the Merger may not be satisfied at all or in the anticipated timeframe.

The obligation of Microbot to complete the Merger is subject to certain conditions, including the condition that StemCells have at least $0 in Net Cash (as defined in the Merger Agreement) as of the closing, the approval by our

stockholders of certain matters including, among other things, the approval of the Share Issuance Proposal, the Reverse Stock Split Proposal and the Authorized Share Increase Proposal, the accuracy of the

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representations and warranties contained in the Merger Agreement, subject to certain materiality qualifications, compliance by the parties with their respective covenants under the Merger Agreement and no law or order preventing the Merger. These conditions are described in more detail under the section The Merger Agreement beginning on page 71 of this proxy statement.

The announcement and pendency of the Merger or failure to consummate the Merger could have an adverse effect on StemCells or Microbot s financial results, future business and operations, as well as the market price of StemCells common stock.

The announcement and pendency of the Merger, or the companies failure to consummate the Merger, could disrupt StemCells or Microbot s businesses in the following ways, among others:

- third parties may seek to terminate and/or renegotiate their relationships with StemCells or Microbot as a result of the Merger, whether pursuant to the terms of their existing agreements or otherwise; and
- the attention of StemCells and Microbot s management may be directed toward the completion of the Merger and related matters and may be diverted from other opportunities that might otherwise be beneficial to StemCells or Microbot.

Should they occur, any of these matters could adversely affect StemCells or Microbot s financial condition, results of operations, or business prospects.

The completion of the Merger is subject to a number of conditions, and there can be no assurance that the conditions to the completion of the Merger will be satisfied. If the Merger is not completed, StemCells and/or Microbot, as applicable, will be subject to several risks, including:

- the fact that most of the fees and expenses in connection with to the Merger, such as legal, accounting and transaction agent fees, must be paid even if the Merger is not completed;
- the fact that it may be very difficult to retain StemCells remaining directors and employees long enough to pursue other alternatives;
- the StemCells Board of Directors would need to reevaluate StemCells strategic alternatives, many of which may be less favorable to stakeholders, such as liquidation of the company;
- StemCells may be delisted from the NASDAQ Capital Market for failure to comply with continued listing requirements;
- neither StemCells nor Microbot would realize any of the anticipated benefits of having completed the Merger;

the price of StemCells stock may decline and remain volatile;

the note entered into in connection with the Merger Agreement would become due and payable; and

StemCells or Microbot could be subject to litigation related to any failure to consummate the Merger or any related action that could be brought to enforce StemCells or Microbot s obligations under the Merger Agreement.

In addition, if the Merger Agreement is terminated and StemCells Board of Directors determines to seek another business combination, there can be no assurance that it will be able to find a transaction that is superior or equal in value to the Merger.

StemCells is subject to the additional risk that if the Merger Agreement is terminated, StemCells will no longer have access to the interim financing provided in connection with the execution of the Merger Agreement, in which case StemCells would need to raise capital or obtain alternative financing to strengthen its cash position. If StemCells is unable to raise sufficient additional capital or obtain alternative financing to strengthen its cash

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position, StemCells may not be able to service its existing indebtedness and may be required to initiate bankruptcy proceedings.

The Merger Agreement and the voting agreements contain provisions that could discourage or make it difficult for a third party to acquire StemCells or Microbot prior to the completion of the Merger.

The Merger Agreement contains provisions that make it difficult to entertain a third-party proposal for an acquisition of StemCells. These provisions include the general prohibition on StemCells and Microbot soliciting or engaging in discussions or negotiations regarding any alternative acquisition proposal and the requirement that StemCells submit the StemCells Merger Proposals to a vote of our stockholders even if our Board of Directors changes its recommendation with respect to the StemCells Merger Proposals.

These provisions might discourage an otherwise interested third party from considering or proposing an acquisition of StemCells or Microbot, even one that may be deemed of greater value to StemCells stockholders or Microbot shareholders, as applicable, than the Merger.

If the Microbot Merger is not completed, StemCells may elect to liquidate its remaining assets, and there can be no assurances as to the amount of cash available to distribute to StemCells stockholders after paying StemCells debts and other obligations.

If the Merger is not completed, the Board of Directors of StemCells may elect to take the steps necessary to liquidate all of its remaining assets. The process of liquidation may be lengthy and StemCells cannot make any assurances regarding the timing of completing such a process. In addition, StemCells would be required to pay all of its debts and contractual obligations, and to set aside certain reserves for potential future claims. There can be no assurance as to the amount of available cash, if any, that might be available to distribute to stockholders, if any, after paying the debts and other obligations and setting aside funds for reserves, nor as to the timing of any such distribution.

StemCells and Microbot have incurred and expect to continue to incur substantial transaction-related costs in connection with the Merger.

StemCells and Microbot have incurred, and expect to continue to incur, a number of non-recurring transaction-related costs associated with completing the Merger and combining the two companies. These fees and costs have been, and will continue to be, substantial. Non-recurring transaction costs include, but are not limited to, fees paid to legal, financial and accounting advisors, severance and benefit costs, filing fees and printing costs. Additional unanticipated costs may be incurred in the combined company s business, which may be higher than expected and could have a material adverse effect on the combined company s financial condition and operating results.

If StemCells fails to continue to meet all applicable NASDAQ Capital Market requirements and NASDAQ determines to delist StemCells common stock, the delisting would impair StemCells ability to complete the Merger.

As a condition to completion the Merger, StemCells must maintain the listing of its common stock on NASDAQ and the combined company must be approved for listing on the NASDAQ Capital Market. In order to maintain that listing and receive approval for listing of the combined company, StemCells and the combined company must satisfy minimum financial and other requirements.

On July 14, 2016, StemCells received notices from NASDAQ, that (i) the closing bid price for StemCells common stock had been below $1.00 per share for the previous 30 consecutive business days, and therefore StemCells was not in compliance with the requirements for continued including on the NASDAQ Capital Market and (ii) because

StemCells Market Value of Listed Securities, as defined by NASDAQ had been below

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$35 million for the previous 30 consecutive business days, StemCells was not in compliance with the requirements for continued inclusion on the NASDAQ Capital Market. NASDAQ has notified StemCells that it has 180 days to regain compliance. On August 29 2016, StemCells regained compliance with the minimum bid price requirement for continued listing on the NASDAQ Capital Market, as the closing bid price of its common stock had been at least $1.00 per share for ten consecutive trading days. The Company remains non-compliant with NASDAQ s Market Value of Listed Securities requirement, but continues to have until January 10, 2017 to regain compliance with this requirement.

While StemCells intends to engage in efforts to regain compliance and thus maintain its listing, there can be no assurance that StemCells will be able to regain compliance during the applicable time period. If NASDAQ determines to delist StemCells common stock, an important condition to consummation of the Merger will be frustrated, the delisting would adversely affect the market liquidity of StemCells common stock and adversely affect StemCells ability to obtain financing on acceptable terms, if at all.

The Exchange Ratio will not be adjusted in the event of any change in either StemCells stock price or Microbot s share price.

In the Merger, each outstanding ordinary share of Microbot (with certain exceptions), by virtue of the Merger and without any action on the part of the parties to the Merger Agreement or the holders of shares of StemCells common stock, will be converted into the right to receive validly issued, fully paid and nonassessable shares of StemCells common stock pursuant to an established exchange ratio set forth in the Merger Agreement, which we refer to as the Exchange Ratio. This Exchange Ratio will not be adjusted for changes in the market price of either StemCells common stock or Microbot stock. However, the Exchange Ratio may be adjusted to eliminate the effect of certain events, including a reclassification, recapitalization, or stock split in the outstanding shares of the capital stock of either StemCells or Microbot.

Share price changes may result from a variety of factors (many of which are beyond our or Microbot s control), including the following:

- changes in StemCells and Microbot s respective businesses, operations and prospects, or the market assessments thereof;
- market assessments of the likelihood that the Merger will be completed; and
- general market and economic conditions and other factors generally affecting the price of StemCells common stock or Microbot s capital stock.

The price of StemCells common stock at the closing of the Merger may vary from the price on the date the Merger Agreement was executed and the date of the special meeting of StemCells stockholders. As a result, the market value of the merger consideration will also vary.

Provisions of Israeli law may delay, prevent or otherwise impede a merger with, or an acquisition of, Microbot, which could prevent a change of control, even when the terms of such a transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each of Microbot and Merger Sub with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the Merger. In addition, a majority of each class of securities of the target company must approve a merger.

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Because the Merger will result in an ownership change under Section 382 of the Internal Revenue Code (the Code) for StemCells, StemCells pre-Merger net operating loss carryforwards and certain other tax attributes will be subject to limitations.

If a corporation undergoes an ownership change within the meaning of Section 382 of the Code, the corporation s net operating loss carryforwards and certain other tax attributes arising prior to the ownership change are subject to limitations on use after the ownership change. In general, an ownership change occurs if there is a cumulative change in the corporation s equity ownership by certain stockholders that exceeds fifty percentage points over a rolling three-year period. Similar rules may apply under state tax laws. The Merger will result in an ownership change of StemCells and, accordingly, StemCells use of net operating loss carryforwards and certain other tax attributes will be subject to an annual limitation after the Merger. Consequently, StemCells will likely be unable to utilize a material portion of its net operating loss carryforwards and other tax attributes to reduce its U.S. federal or state income tax liability.

Some of the directors and executive officers of StemCells and Microbot have interests in the Merger that may be different from, or in addition to, those of the other StemCells and Microbot shareholders.

When considering the recommendation by the Board of Directors of StemCells that the StemCells stockholders vote for each of the StemCells Merger Proposals, the StemCells stockholders should be aware that certain of the directors and executive officers of StemCells and Microbot have certain rights to indemnification and to directors and officers liability insurance that will be provided by the company in connection with the Merger. In addition, certain executive officers of StemCells have arrangements that provide them with interests in the Merger that are different from, or in addition to, those of the stockholders of StemCells and shareholders of Microbot.

Certain of Microbot s current executive officers and directors are expected to own shares of common stock of the combined company and/or options to purchase shares of common stock of the combined company following the completion of the Merger. See Principal Stockholders of Combined Company beginning on page 163.

The Board of Directors of StemCells was aware of these potential interests and considered them in making their respective recommendations to approve the StemCells Merger Proposals.

Risks Relating to the Combined Company

Even if the Merger is consummated, StemCells and Microbot may fail to realize the anticipated benefits of the Merger.

The success of the Merger will depend on, among other things, the combined company s ability to achieve its business objectives, including the successful development of its product candidates. If the combined company is not able to achieve these objectives, the anticipated benefits of the Merger may not be realized fully, may take longer to realize than expected, or may not be realized at all.

StemCells and Microbot have operated and, until the completion of the Merger, will continue to operate independently. Even if the Merger is completed, it is possible that the integration process could result in the disruption of each company s ongoing business, an adverse impact on the value of StemCells assets, or inconsistencies in standards, controls, procedures or policies that could adversely affect the combined company s ability to comply with reporting obligations as a public company, to satisfy StemCells obligations to third parties or to achieve the anticipated benefits of the Merger. Any delays in the integration process or inability to realize the full extent of the anticipated benefits of the Merger could have an adverse effect on the business prospects and results of operations of

the combined company. Such an adverse effect may impact the value of the shares of the combined company s common stock after the completion of the Merger.

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Potential difficulties that may be encountered in the integration process include the following:

- combining the internal controls and historical records of StemCells and Microbot;
- maintaining internal controls over financial reporting upon completion of the Merger;
- using the combined company s cash and other assets efficiently to develop the business of the combined company;
- appropriately managing the liabilities of the combined company; and
- performance shortfalls as a result of the diversion of management s attention caused by completing the Merger.

In addition, Microbot could be materially adversely affected prior to the closing of the Merger, which could have a material adverse effect on the value of the combined company. StemCells is required under the Merger Agreement to complete the Merger despite: any changes in general economic or political conditions or the securities market in general, to the extent they do not disproportionately affect Microbot; any changes in or affecting the industries in which Microbot operates, to the extent they do not disproportionately affect Microbot; and any changes, effects or circumstances resulting from the announcement or pendency of the Merger Agreement or the completion of the contemplated transactions or compliance with the terms of the Merger Agreement. If any such adverse changes occur and the Merger is still completed, the combined company s stock price may suffer. This in turn may reduce the value of the Merger to the stockholders of the combined company.

A failure by the combined company upon completion of the Merger to comply with the initial listing standards of the NASDAQ Capital Market may subject the stock to delisting from the NASDAQ Capital Market, which listing is a condition to the completion of the Merger.

As a condition to the Merger, StemCells must maintain the listing of StemCells common stock on NASDAQ. In addition, oftentimes a reverse stock split will not result in a trading price for the affected common stock that is proportional to the ratio of the split. Upon the completion of the Merger, the combined company will be required to meet the initial listing requirements to maintain the listing and continued trading of StemCells shares on the NASDAQ Capital Market. These initial listing requirements are more difficult to achieve than the continued listing requirements under which StemCells is now trading, including that StemCells (a) have a minimum bid price of at least $4 per share, (b) have a public float of at least $15 million and (c) have stockholders equity of at least $5 million. Based on information currently available, StemCells anticipates that it will be unable to meet the $4.00 minimum bid price initial listing requirement at the closing of the Merger unless it effects a reverse stock split. If StemCells is unable to satisfy these requirements, NASDAQ may notify StemCells that its stock will be subject to delisting from the NASDAQ Capital Market.

The combined company s management will be required to devote substantial time to comply with public company regulations.

As a public company, the combined company will incur significant legal, accounting and other expenses. The rules implemented by the SEC and the NASDAQ Capital Market, impose various requirements on public companies, including those related to corporate governance practices. The combined company s management and other personnel will need to devote a substantial amount of time to these requirements. Certain members of Microbot s management, which will substantially continue as the management of the combined company, do not have experience in addressing these requirements.

Sarbanes-Oxley requires, among other things, that the combined company maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, the combined company must perform system and process evaluation and testing of its internal controls over financial reporting to allow management and the combined company s independent registered public accounting firm to report on the

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effectiveness of its internal controls over financial reporting, as required by Section 404. The combined company s compliance with Section 404 will require that it incur substantial accounting and related expenses and expend significant management efforts. The combined company may need to hire additional accounting and financial staff to satisfy the ongoing requirements of Section 404. Moreover, if the combined company is not able to comply with the requirements of Section 404, or if the combined company or its independent registered public accounting firm identifies deficiencies in its internal controls over financial reporting that are deemed to be material weaknesses, the market price of the combined company s stock could decline and the combined company could be subject to sanctions or investigations by the NASDAQ Capital Market, the SEC, or other regulatory authorities.

Either StemCells, Microbot or both may become involved in securities class action litigation that could divert management s attention and harm the combined company s business, and insurance coverage may not be sufficient to cover all costs and damages.

In the past, securities class action or shareholder derivative litigation often follows certain significant business transactions, such as the announcement of a merger. The combined company may become involved in this type of litigation in the future. Litigation often is expensive and diverts management s attention and resources, which could adversely affect the combined company s business.

The market price of the combined company s common stock after the Merger may be affected by factors different from those currently affecting the shares of StemCells common stock.

Upon completion of the Merger, holders of StemCells common stock and Microbot capital stock will become holders of the combined company s common stock. StemCells business differs significantly from the business of Microbot and, accordingly, the results of operations of the combined company and the market price of the combined company s common stock following the completion of the Merger may be significantly affected by factors different from those currently affecting StemCells independent results of operations.

The reverse stock split may not increase the combined company s stock price over the long-term.

The principal purpose of the reverse stock split is to increase the per-share market price of StemCells common stock. It cannot be assured, however, that the reverse stock split will accomplish this objective for any meaningful period of time. In addition, it cannot be assured that the reverse stock split will increase the market price of its common stock by a multiple of the proposed reverse stock split ratio, or result in any permanent or sustained increase in the market price of StemCells common stock, which is dependent upon many factors, including the combined company s business and financial performance, general market conditions, and prospects for future success. Therefore, while the stock price of the combined company might meet the continued listing requirements for the NASDAQ Capital Market initially, it cannot be assured that it will continue to do so.

The reverse stock split may decrease the liquidity of the combined company s common stock.

Although StemCells believes that the anticipated increase in the market price of the combined company s common stock could encourage interest in its common stock and possibly promote greater liquidity for its stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the reverse stock split. The reduction in the number of outstanding shares may lead to reduced trading and a smaller number of market makers for StemCells common stock.

The reverse stock split may lead to a decrease in the combined company s overall market capitalization.

Should the market price of the combined company s common stock decline after the reverse stock split, the percentage decline may be greater, due to the smaller number of shares outstanding, than it would have been prior to the reverse stock split. A reverse stock split may be viewed negatively by the market and, consequently,

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can lead to a decrease in the combined company s overall market capitalization. If the per share market price does not increase in proportion to the reverse stock split ratio, then the value of the combined company, as measured by its stock capitalization, will be reduced. In some cases, the per-share stock price of companies that have effected reverse stock splits subsequently declined back to pre-reverse stock split levels, and accordingly, it cannot be assured that the total market value of StemCells common stock will remain the same after the reverse stock split is effected, or that the reverse stock split will not have an adverse effect on StemCells stock price due to the reduced number of shares outstanding after the reverse stock split.

The existing shareholders of Microbot will control the combined company for the foreseeable future, including the outcome of matters requiring shareholder approval and such control may prevent existing stockholders of StemCells from influencing significant corporate decisions and may result in conflicts of interest that could cause the combined company s stock price to decline.

Following the closing of the Merger, StemCells stockholders will own approximately 5% of the combined company, with the remaining 95% of the combined company ownership comprised 75% of existing Microbot shareholders and 20% by certain advisors (which includes an existing Microbot shareholder) pursuant to Section 5.29 of the Merger Agreement. As a result, after the consummation of the Merger, such entities and individuals will have the ability, acting together, to control the election of the combined company s directors and the outcome of corporate actions requiring shareholder approval, such as: (i) a merger or a sale of the combined company; (ii) a sale of all or substantially all of the combined company s assets; and (iii) amendments to the combined company s articles of incorporation and bylaws. This concentration of voting power and control could have a significant effect in delaying, deferring or preventing an action that might otherwise be beneficial to the combined company s other shareholders and be disadvantageous to Microbot shareholders with interests different from those entities and individuals. Certain of these individuals will also have significant control over the combined company s business, policies and affairs as officers or directors of the combined company. These stockholders may also exert influence in delaying or preventing a change in control of the combined company, even if such change in control would benefit the other stockholders of the combined company. In addition, the significant concentration of stock ownership may adversely affect the market value of the combined company s common stock due to investors perception that conflicts of interest may exist or arise.

Material weaknesses may exist when the combined company reports on the effectiveness of its internal control over financial reporting for purposes of its reporting requirements.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected. Microbot has concluded that there is a material weakness in its internal control over financial reporting because it does not have a sufficient number of personnel with the appropriate level of experience and technical expertise to appropriately resolve non-routine and complex accounting matters or to evaluate the impact of new and existing accounting pronouncements on its consolidated financial statements while completing the financial statement close process. Until this design deficiency is remediated, there is more than a remote likelihood that a material misstatement to Microbot s annual or interim consolidated financial statements could occur and not be prevented or detected by Microbot s internal controls in a timely manner.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, following the completion of the Merger, the combined company will be required to assess the effectiveness of its internal control over financial reporting as of the end of its fiscal year. This assessment must include disclosure of any material weaknesses in the combined company s internal control over financial reporting that is identified by management. The report must also contain a statement that the combined company s independent registered public accounting firm has issued an attestation report on management s

assessment of such internal controls. If the combined company s management or its independent registered public accounting firm identifies one or more material weaknesses in the combined company s internal control over financial reporting, the combined company will be unable to assert that such internal control is effective. If the combined company is unable to assert that its internal control over

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financial reporting is effective because the material weakness identified above has not been remediated, or for any other reason, or if the combined company s independent registered public accounting firm is unable to attest that the combined company s management s report is fairly stated or it is unable to express an opinion on the effectiveness of the combined company s internal controls, investors could lose confidence in the accuracy and completeness of the combined company s financial reports, which could have an adverse effect on the combined company s stock price.

The combined company does not expect to pay cash dividends on its common stock.

It is anticipated that the combined company will retain its earnings, if any, for future growth and therefore the combined company does not anticipate paying cash dividends on its common stock in the future.

The combined company will incur costs and demands upon management as a result of complying with the laws and regulations affecting public companies.

The combined company will incur significant legal, accounting and other expenses that Microbot did not incur as a private company, including costs associated with public company reporting requirements. The combined company will also incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act and rules and regulations promulgated by the SEC and The NASDAQ Stock Market. These rules and regulations are expected to increase the combined company s legal and financial compliance costs and to make some activities more time-consuming and costly. For example, not all members of the combined company s management team have previously managed and operated a public company. The executive officers and other personnel of the combined company will need to devote substantial time to gaining expertise regarding operations as a public company and compliance with applicable laws and regulations. These rules and regulations may also make it difficult and expensive for the combined company to obtain directors and officers liability insurance. As a result, it may be more difficult for the combined company to attract and retain qualified individuals to serve on the combined company s board of directors or as executive officers of the combined company, which may adversely affect investor confidence in the combined company and could cause the combined company s business or stock price to suffer.

Anti-takeover provisions in the combined company s charter and bylaws under Delaware law may prevent or frustrate attempts by stockholders to change the board of directors or current management and could make a third-party acquisition of the combined company difficult.

Provisions in the combined company s certificate of incorporation and bylaws, which are identical to StemCells certificate of incorporation and bylaws, may delay or prevent an acquisition or a change in management. These provisions include a classified board of directors. In addition, because the combined company will be incorporated in Delaware, it is governed by the provisions of Section 203 of the DGCL, which prohibits stockholders owning in excess of 15% of the outstanding combined company voting stock from merging or combining with the combined company. Although StemCells and Microbot believe these provisions collectively will provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with the combined company s board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by the combined company s stockholders to replace or remove then current management by making it more difficult for stockholders to replace members of the board of directors, which is responsible for appointing members of management.

There can be no assurance of the combined company obtaining the effectiveness of a resale registration statement or any other liquidity event.

No assurance can be given that the combined company will be able to obtain the effectiveness of a resale registration statement or other liquidity event will be consummated or that, if consummated, it would result in increased value of the shares of Common Stock.

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Upon dissolution of the combined company, you may not recoup all or any portion of your investment.

In the event of a liquidation, dissolution or winding-up of the combined company, whether voluntary or involuntary, the proceeds and/or assets of the combined company remaining after giving effect to such transaction, and the payment of all of our debts and liabilities, will be distributed to the stockholders of Common Stock on a pro rata basis, subject to any holders of our securities that have preferential rights over our Common Stockholders. There can be no assurance that we will have available assets to pay to the holders of Common Stock, or any amounts, upon such a liquidation, dissolution or winding-up of our Company. In this event, you could lose some or all of your investment.

The combined company may have unforeseen liabilities and any such liabilities could harm its business, prospects, financial condition and results of operations.

As part of the negotiation of the Merger Agreement, each party conducted due diligence on the other customary and appropriate for a transaction similar to the Merger. However, the due diligence process may not have revealed all material liabilities of the companies which may be asserted in the future against the combined company relating to its activities before the consummation of the Merger. In addition, the Merger Agreement contains closing conditions with respect to the net cash of StemCells being no less than zero at closing, subject to certain important exceptions. However, there can be no assurance that the combined company will not have additional liabilities upon the closing of the Merger that either party was unaware of. Any such liabilities that survive the Merger could harm the combined company s business, prospects, financial condition and results of operations.

Risks Relating to Microbot

Risks Relating to Microbot s Financial Position and Need for Additional Capital

Microbot has had no revenue and has incurred significant operating losses since inception and the combined company after the Merger is expected to continue to incur significant operating losses for the foreseeable future. The combined company may never become profitable or, if achieved, be able to sustain profitability.

Pro forma for the Merger, as if they had occurred as of June 30, 2016, Microbot had cash and cash equivalents of approximately $5.3 million. Microbot has incurred significant operating losses since its inception and expects to incur significant losses for the foreseeable future as Microbot continues its preclinical and clinical development programs for its existing product candidates, SCS and TipCAT; its research and development of any other future product candidates; and all other work necessary to obtain regulatory clearances or approvals for its product candidates in the United States and other markets. In the future, Microbot intends to continue conducting micro-robotics research and development; performing necessary animal and clinical testing; working towards medical device regulatory compliance; and, if SCS, TipCAT or other future product candidates are approved or cleared for commercial distribution, engaging in appropriate sales and marketing activities that, together with anticipated general and administrative expenses, will likely result in Microbot incurring further significant losses for the foreseeable future.

Microbot is a development-stage medical device company and currently generates no revenue from product sales, and may never be able to commercialize SCS, TipCAT or other future product candidates. Microbot does not currently have the required approvals or clearances to market or test in humans SCS, TipCAT or any other future product candidates and Microbot may never receive them. Following the Merger, Microbot does not anticipate generating significant revenues until the combined company can successfully develop, commercialize and sell products derived from its product pipeline, of which Microbot can give no assurance. Even if Microbot or any of its future development partners succeed in commercializing any of Microbot s product candidates, Microbot may never generate revenues significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with its product development pipeline and strategy, Microbot cannot accurately predict when it will achieve profitability, if ever. Failure to become and

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remain profitable would depress the value of the combined company and could impair its ability to raise capital, which may force the combined company to curtail or discontinue its research and development programs and/or day-to-day operations. Furthermore, there can be no assurance that profitability, if achieved, can be sustained on an ongoing basis.

Microbot s business depends on the success of the SCS and the TipCAT, both of which are still in pre-clinical development. If Microbot is unable to obtain regulatory approval for or to successfully commercialize these products, its business will be materially harmed.

To date, the primary focus of Microbot s product development has been on SCS, for the treatment of hydrocephalus and normal pressure hydrocephalus, or NPH, and TipCAT, a self-propelling, semi-disposable endoscope being developed initially for use in colonoscopy procedures. Successful continued development and ultimate regulatory approval or clearance of both SCS and TipCAT are critical to the future success of Microbot s business. Microbot has invested, and will continue to invest, a significant portion of its time and financial resources in the development, pre-clinical and clinical testing of and obtaining regulatory authorization for SCS and TipCAT. Microbot will need to raise sufficient funds to successfully complete its development of these products. The future regulatory and commercial success of SCS and TipCAT is subject to a number of risks, including the following:

- Microbot may not have sufficient financial and other resources to complete the necessary clinical trials for SCS and TipCAT;
- If clinical trials are required for FDA clearance or approval of SCS or TipCAT, Microbot may not be able to obtain adequate evidence from such clinical trials of safety and effectiveness in order to receive the applicable clearance or approval from the FDA; and
- Microbot does not know the degree to which SCS or TipCAT will be accepted and adopted by physicians, patients and payors, even if approved or cleared by FDA for commercial marketing.

If Microbot is unable to successfully navigate these risks and achieve commercial success for its products, its business will be significantly harmed and Microbot may never become profitable.

Microbot has a limited operating history, which may make it difficult to evaluate the prospects for the combined company s future viability.

Microbot has a limited operating history upon which an evaluation of its business plan or performance and prospects can be made. The business and prospects of Microbot must be considered in the light of the potential problems, delays, uncertainties and complications that may be encountered in connection with a newly established business. The risks include, but are not limited to, the possibility that Microbot will not be able to develop functional and scalable products, or that although functional and scalable, its products will not be economical to market; that its competitors hold proprietary rights that may preclude Microbot from marketing such products; that its competitors market a superior or equivalent product; that Microbot is not able to upgrade and enhance its technologies and products to accommodate new features and expanded service offerings; or the failure to receive necessary regulatory clearances or approvals for its products. To successfully introduce and market its products at a profit, Microbot must establish brand name recognition and competitive advantages for its products. There are no assurances that Microbot can successfully address these challenges. If it is unsuccessful, Microbot and its business, financial condition and operating results

could be materially and adversely affected.

Microbot s operations to date have been limited to organizing the company, entering into licensing arrangements to initially obtain rights to its technologies, developing and securing its technologies, raising capital, developing regulatory and reimbursement strategies for its product candidates and preparing for pre-clinical and clinical trials of the SCS and TipCAT. Microbot has not yet demonstrated its ability to successfully complete development of any product candidate, obtain marketing clearance or approval, manufacture a

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commercial-scale product or arrange for a third party to do so on its behalf, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, any predictions made about Microbot s future success or viability may not be as accurate as they could be if Microbot had a longer operating history.

Microbot s independent registered public accounting firm has noted that the continuation of Microbot as a business will be dependent on its ability to receive additional financing.

Based on Microbot s limited operating history and the risks it faces, including uncertainties regarding the development of its product, Microbot s independent registered public accounting firm has included an explanatory paragraph in its report on Microbot s financial statements as of and for the years ended December 31, 2015 and December 31, 2014 elaborating on the business conditions Microbot faces. As Microbot expects to continue to incur significant operating costs and losses in connection with the development of its product and financing its business development operations, as of the date of the financial statements, the continuation of Microbot s activities and its obligations are dependent upon the receipt of financing from its shareholders or new investors.

The combined company will need substantial additional funding. If the combined company is unable to raise capital when needed, it could be forced to delay, reduce or eliminate its product development programs or commercialization efforts.

To date, Microbot has funded its operations primarily through private placement offerings of debt and equity securities, grants and loans. From November 10, 2010 through June 30, 2016, Microbot received: (i) approximately $3.0 million from the issuance of Microbot s series A preferred stock and the exercise of warrants to purchase Microbot s series A preferred stock, (ii) approximately $0.9 million for research and development activities as a grant from the Office of the Chief Scientist in Israel, and (iii) approximately $1.2 million from existing shareholders of Microbot pursuant to convertible loan agreements. In addition, as a condition to the completion of the Merger, Microbot will conduct one or more private capital raises prior to the consummation of the Merger, pursuant to which Microbot expects to raise proceeds of no less than $4.0 million, which is referred to herein as the Microbot Private Placement.

Microbot does not know when, or if, the combined company will generate any revenue, but does not expect the combined company to generate significant revenue unless and until it obtains regulatory clearance or approval of and commercializes one of its current or future product candidates. It is anticipated that the combined company will continue to incur losses for the foreseeable future, and that losses will increase as the combined company continues the development of, and seeks regulatory review of, its product candidates, and begins to commercialize any approved or cleared products following a successful regulatory review.

Microbot expects the research and development expenses of the combined company to increase substantially in future periods as it conducts pre-clinical studies in large animals and potentially clinical trials for its product candidates, and especially if it initiates additional research programs for future product candidates. In addition, if the combined company obtains marketing clearance or approval for any of its product candidates, it expects to incur significant commercialization expenses related to product manufacturing, marketing and sales. Furthermore, upon the completion of the Merger, Microbot expects to incur additional costs associated with operating as a public company in the United States. Accordingly, the combined company will need to obtain substantial additional funding in connection with its continuing operations. If the combined company is unable to raise capital when needed or on attractive terms, it could be forced to delay, reduce or eliminate its research and development programs or any future commercialization efforts.

Microbot believes that the net cash of the combined company that will be available upon completion of the Merger will be sufficient to fund the combined company for at least 18 months and fund operations necessary to

commercialize SCS and TipCAT.

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The combined company may need to raise additional funds through equity offerings or otherwise in order to meet expected future liquidity needs, including the introduction of the SCS device into the hydrocephalus and NPH market, and introducing the TipCAT as a next-generation colonoscope. The combined company s future capital requirements, generally, will depend on many factors, including:

- the date that the Merger is completed;
- the timing and outcomes of the product candidates regulatory reviews, subsequent approvals or clearances, or other regulatory actions;
- the costs, design, duration and any potential delays of the clinical trials that could be conducted at the FDA s request using Microbot s product candidates;
- the costs of acquiring, licensing or investing in businesses, product candidates and technologies;
- the costs to maintain, expand and defend the scope of Microbot s intellectual property portfolio;
- the costs to secure or establish sales, marketing and commercial manufacturing capabilities or arrangements with third parties regarding same;
- the combined company s need and ability to hire additional management and scientific and medical personnel; and
- the costs to operate as a public company in the United States, including the need to implement additional financial and reporting systems and other internal systems and infrastructure for the combined company s business.

Raising additional capital may cause dilution to the combined company s investors, restrict its operations or require it to relinquish rights to its technologies or product candidates.

Until such time, if ever, as the combined company can generate substantial product revenues, it expects to finance its cash needs through a combination of equity offerings, licensing, collaboration or similar arrangements, grants and debt financings. The combined company does not have any committed external source of funds. In addition to the Microbot Private Placement, the combined company may seek to raise additional capital at any time prior to, or financing soon after, completion of the Merger. To the extent that the combined company raises additional capital through the sale of equity or convertible debt securities, the ownership interest of its stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of holder of the combined company s common stock. Debt financing, if available, may involve agreements that include covenants limiting or restricting the combined company s ability to take specific actions, such as incurring additional debt, making capital expenditures, declaring dividends or other distributions, selling or licensing intellectual property rights,

and other operating restrictions that could adversely affect the combined company s ability to conduct its business.

If the combined company raises additional funds through licensing, collaboration or similar arrangements, it may have to relinquish valuable rights to its technologies, future revenue streams, research and development programs or product candidates or to grant licenses on terms that may not be favorable to the combined company. If the combined company is unable to raise additional funds through equity or debt financings or other arrangements when needed, it may be required to delay, limit, reduce or terminate its product development or future commercialization efforts or grant rights to develop and market product candidates that it would otherwise prefer to develop and market itself.

Limitations on the ability of smaller reporting companies to sell shares under a Form S-3 shelf registration statement may interfere with the combined company s ability to execute financing transactions quickly or at all.

The combined company s ability to raise capital using a shelf registration statement may be limited by, among other things, current SEC rules and regulations. Under these rules and regulations, the combined company

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must meet certain requirements to use a Form S-3 registration statement to raise capital without restriction as to the amount of the market value of securities sold under the Form S-3 registration statement. One such requirement is that the market value of the combined company s outstanding common stock held by non-affiliates, or public float, be at least $75 million as of a date within 60 days prior to the date on which the securities are sold under the Form S-3 (and the date of any Form 10-K filing thereafter by the combined company, which is deemed a re-evaluation date). If the combined company does not meet that requirement, then the aggregate market value of securities sold by the combined company in a primary offering under a Form S-3 in any 12-month period is limited to an aggregate of one-third of the combined company s public float. SEC rules and regulations require that the combined company periodically re-evaluate the value of its public float, and if, at a re-evaluation date, its public float is less than $75 million, the combined company would become subject to the one-third of public float limitation described above.

Following the closing of the Merger, the combined company s public float is expected to be less than $75 million, so the combined company s ability to utilize a Form S-3 registration statement for a primary offering of its securities will be restricted under these rules, and any such offering under a Form S-3 will be limited to raising an aggregate of one-third of the combined company s public float. Alternatively, the combined company could elect to raise capital pursuant to an exemption from registration under the Securities Act, or under a Form S-1 registration statement, but either of these alternatives would likely increase the cost of raising additional capital when compared to the use of a Form S-3 registration statement. Furthermore, because of these limitations to using Form S-3 and the increased likelihood of greater costs and potential delays associated with the alternatives to using a Form S-3, the terms of any financing transaction that the combined company is able to conduct may be less favorable or may cause it to be unable to obtain capital in a timely manner.

Risks Relating to the Development and Commercialization of Microbot s Product Candidates

Microbot s business depends heavily on the success of its lead product candidates, the SCS and the TipCAT. If Microbot is unable to commercialize the SCS or the TipCAT or experiences significant delays in doing so, Microbot s business will be materially harmed.

Microbot expects the animal studies for SCS to start by the end of 2016. Upon the completion of animal studies, Microbot may conduct clinical trials if they are requested by the FDA or if Microbot decides that the data from such trials would improve the marketability of the product candidate. The TipCAT is expected to enter animal studies in 2017. Upon the completion of animal studies, Microbot may conduct clinical trials if they are requested by the FDA or if Microbot decides that the data from such trials would improve the marketability of the product candidate. After all necessary clinical and performance data supporting the safety and effectiveness of each product candidate are collected, Microbot must still obtain FDA clearance or approval to market the device and those regulatory processes can take several months to several years to be completed. Therefore, Microbot s ability to generate product revenues will not occur for at least the next few years, if at all, and will depend heavily on the successful commercialization of SCS and TipCAT in their respective intended markets. The success of each of these product candidates will depend on a number of factors, including the following:

- the combined company s ability, following completion of the Merger, to obtain additional capital;
- successful completion of animal studies and, if necessary, human clinical trials and the collection of sufficient data to demonstrate that the device is safe and effective for its intended use;

receipt of marketing approvals or clearances from FDA and other applicable regulatory authorities;

establishing commercial manufacturing arrangements with one or more third parties;

obtaining and maintaining patent and trade secret protections;

protecting Microbot s rights in its intellectual property portfolio;

establishing sales, marketing and distribution capabilities;

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generating commercial sales of SCS and TipCAT, as applicable, if and when approved, whether alone or in collaboration with other entities;

acceptance of SCS and TipCAT, as applicable, if and when commercially launched, by the medical community, patients and third-party payors;

effectively competing with existing shunt and endoscope products on the market and any new competing products that may enter the market; and

maintaining quality and an acceptable safety profile of SCS and TipCAT, as applicable, following clearance or approval.

If Microbot does not achieve one or more of these factors in a timely manner or at all, Microbot could experience significant delays or an inability to successfully commercialize SCS and/or TipCAT, which would materially harm its business.

Microbot s product candidates are subject to an uncertain and potentially lengthy domestic regulatory review process. If Microbot does not obtain and maintain the necessary regulatory authorizations from the Food and Drug Administration, Microbot will not be able to sell its product candidates in the United States.

Microbot s product candidates and operations are subject to extensive regulation in the United States by the FDA under the agency s medical device authorities. The FDA regulates the development, bench and clinical testing, manufacturing, labeling, storage, record-keeping, promotion, marketing sales, distribution and post-market support and reporting of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. Microbot expects its product candidates to be classified as Class II. In order to market Class II products for use in the United States, Microbot must first obtain clearance from the FDA pursuant to Section 510(k) of the Federal Food, Drug, and Cosmetic Act. Clearance under Section 510(k) requires a demonstration that a new device is substantially equivalent to another device with 510(k) clearance or grandfathered status or to a device that was reclassified from Class III to Class II or Class I.

If the FDA determines that the device or its intended use is not substantially equivalent to a predicate device, the device is automatically placed into Class III, requiring the submission of a premarket approval application (PMA). There is no guarantee that the FDA will agree with Microbot s determination that a 510(k) notification is the appropriate regulatory pathway for its products, or that FDA will grant Microbot 510(k) clearance for its pipeline medical device products even if that pathway is accepted. Failure to obtain the necessary clearances for its products would adversely affect Microbot s ability to grow its business. Delays in receipt or failure to receive the necessary clearances, or the failure to comply with existing or future regulatory requirements, could reduce our business prospects.

Devices that cannot be cleared through the 510(k) process due to lack of a predicate device but would be considered low or moderate risk (in other words, they do not rise to the level of requiring the approval of a PMA) may be eligible for the 510(k) de novo classification process. If FDA determines that either of Microbot s product candidates is not eligible for a traditional 510(k), the Microbot device may still be eligible for the 510(k) de novo process.

Even if one or both of Microbot s product candidates receives 510(k) clearance from FDA, under either the traditional pathway or the de novo 510(k) pathway, any subsequent modification that could significantly affect the device s safety

or effectiveness, or that would cause them to be marketed for additional indications for use, may require a new 510(k) clearance or a PMA for the modified products before Microbot will be permitted to market them in the United States. The FDA can require a manufacturer to cease U.S. marketing and/or recall the modified device until it is satisfied that the appropriate 510(k) clearance or PMA approval is obtained.

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The FDA may not act favorably or quickly in its review of Microbot s 510(k), de novo 510(k), or PMA submissions, as applicable, or Microbot may encounter significant difficulties and costs in its efforts to obtain FDA clearance or approval, any of which could delay or preclude its sale of its product candidates in the United States. Furthermore, the FDA may request additional data or require Microbot to conduct further testing, or compile more data, including clinical data and clinical studies, in support of its 510(k) submission or potentially a de novo 510(k).

Moreover, the regulatory policies affecting Microbot s proposed product candidates can change at any time. The changes and their potential impact on Microbot s business cannot be accurately predicted. For example, in 2011, the FDA announced a Plan of Action to modernize and improve the FDA s premarket review of medical devices, and has implemented, and continues to implement, reforms intended to streamline the premarket review process. In addition, as part of the Food and Drug Administration Safety and Innovation Act of 2012, Congress enacted several reforms through the Medical Device Regulatory Improvements and additional miscellaneous provisions which will further affect both pre- and post-approval medical device regulation. Changes in the FDA 510(k) process could make clearance more difficult to obtain, increase delay, add uncertainty and have other significant adverse effects on Microbot s ability to obtain and maintain clearance for its product candidates.

The FDA may also, instead of accepting any kind of 510(k) submission, classify a product as high-risk and require Microbot to submit a PMA for the initial clearance, which is typically a much more complex, lengthy and burdensome application than a 510(k) submission. To support a PMA, the FDA would likely require that Microbot conduct one or more clinical studies to demonstrate that the device is safe and effective. In some cases such studies may be requested for a 510(k) or de novo 510(k) as well. Microbot may not be able to meet the requirements to obtain 510(k) clearance or PMA approval, in which case the FDA may not grant any necessary clearances or approvals. In addition, the FDA may place significant limitations upon the intended use of its product candidates as a condition to a 510(k) clearance or PMA approval. Product applications can also be denied or withdrawn due to failure to comply with regulatory requirements or the occurrence of unforeseen problems following clearance or approval. Any delays or failure to obtain FDA clearance or approval of new products Microbot develops, any limitations imposed by the FDA on new product use or the costs of obtaining FDA clearance or approvals could have a material adverse effect on Microbot s business, financial condition and results of operations.

Failure to comply with the regulations or obtain the approvals described above could have a material adverse effect on Microbot s business, financial condition and results of operations. There can be no assurance that clinical trials will meet desired endpoints, produce meaningful or useful data and be free of unexpected adverse effects, and such uncertainty could preclude or delay market clearance or authorizations resulting in significant financial costs and reduced revenue.

At this time, Microbot does not know whether the FDA will require it to submit clinical data in support of its future marketing applications for either product candidate.

Microbot anticipates that each of its existing product candidates, SCS and TipCAT, will be classified by the FDA as Class II and thus be eligible for marketing pursuant to a cleared 510(k) notification. However, there is no guarantee that the FDA will agree with the Company s determination or that the FDA would accept the predicate devices that Microbot intends to submit in its 510(k) notifications in order to establish that its new device product is substantially equivalent to one or more predicate devices. The FDA also may request additional data in response to a 510(k) notification, or require Microbot to conduct further testing or compile more data in support of its 510(k) submission or de novo 510(k), as appropriate. Such additional data could include clinical data that must be derived from human clinical studies that are designed appropriately to address the potential questions from the FDA regarding a proposed product s safety or effectiveness.

In order to conduct a clinical investigation involving human subjects for the purpose of demonstrating the safety and effectiveness of a medical device, a company must, among other things, apply for and obtain

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Institutional Review Board, or IRB, approval of the proposed investigation. In addition, if the clinical study involves a significant risk (as defined by the FDA) to human health, the sponsor of the investigation must also submit and obtain FDA approval of an Investigational Device Exemption, or IDE, application. Microbot may not be able to obtain FDA and/or IRB approval to undertake clinical trials in the United States for any new devices Microbot intends to market in the United States in the future. Any type of clinical study in humans requires the investment of substantial expense, professional resources and time. Moreover, the timing of the commencement, continuation and completion of any future clinical trial may be subject to significant delays attributable to various causes, including scheduling conflicts with participating clinicians and clinical institutions, difficulties in identifying and enrolling patients who meet trial eligibility criteria, failure of patients to complete the clinical trial, delay in or failure to obtain IRB approval to conduct a clinical trial at a prospective site, and shortages of supply in the investigational device.

The addition of one or more mandatory clinical trials to the development timeline for one or both Microbot product candidates would significantly increase the costs associated with developing and commercializing the product and delay the timing of U.S. regulatory authorization.

Unsuccessful animal studies, clinical trials or procedures relating to product candidates under development could have a material adverse effect on Microbot s prospects.

The regulatory approval process for new products and new indications for existing products requires extensive data and procedures, including the development of regulatory and quality standards and, potentially, certain clinical studies. Unfavorable or inconsistent data from current or future clinical trials or other studies conducted by Microbot or third parties, or perceptions regarding such data, could adversely affect Microbot s ability to obtain necessary device clearance or approval and the market s view of Microbot s future prospects. Failure to successfully complete these studies in a timely and cost-effective manner could have a material adverse effect on Microbot s prospects. Because animal trials, clinical trials and other types of scientific studies are inherently uncertain, there can be no assurance that these trials or studies will be completed in a timely or cost-effective manner or result in a commercially viable product. Clinical trials or studies may experience significant setbacks even if earlier preclinical or animal studies have shown promising results. Furthermore, preliminary results from clinical trials may be contradicted by subsequent clinical analysis. Results from clinical trials may also not be supported by actual long-term studies or clinical experience. If preliminary clinical results are later contradicted, or if initial results cannot be supported by actual long-term studies or clinical experience, Microbot s business could be adversely affected. Clinical trials also may be suspended or terminated by us, the FDA or other regulatory authorities at any time if it is believed that the trial participants face unacceptable health risks.

Microbot has no prior experience in conducting clinical trials and will depend upon the ability of third parties, including contract research organizations, collaborative academic groups, future clinical trial sites and investigators, to conduct or to assist the Company in conducting clinical trials for its product candidates, if such trials become necessary.

As a development-stage, pre-clinical company, Microbot has no prior experience in designing, initiating, conducting and monitoring human clinical trials, if data from such trials become necessary in order to obtain regulatory clearance or approval of our product candidates. Should the FDA or another regulatory agency in a foreign market request clinical data to support the safety and effectiveness of Microbot s product candidates, Microbot will depend upon its ability and/or the ability of future collaborators, contract research organizations, clinical trial sites and investigators to successfully design, initiate, conduct and monitor such clinical trials.

Failure by Microbot or by any of these future collaborating parties to timely and effectively initiate, conduct and monitor a future clinical trial could significantly delay or materially impair Microbot s ability to complete those

clinical trials and/or obtain regulatory clearance or approval of its product candidates and, consequently, could delay or materially impair its ability to generate revenues from the commercialization of those products.

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If the commercial opportunity for SCS and TipCAT is smaller than Microbot anticipates, Microbot s future revenue from SCS and TipCAT will be adversely affected and Microbot s business will suffer.

If the size of the commercial opportunities in any of Microbot s target markets is smaller than Microbot anticipates, Microbot may not be able to achieve profitability and growth. Microbot is developing SCS as a device for the treatment of hydrocephalus and NPH and is developing TipCAT as an endoscopic tool, with colonoscopy as the most immediate application of the TipCAT technology. Microbot expects its future revenues to be primarily derived from the sales of the SCS and TipCAT, neither of which has undergone an FDA pre-market review process necessary to commercialize the product candidate in the United States. It is difficult to predict the penetration, future growth rate or size of the market for Microbot s product candidates.

The commercial success of the SCS and TipCAT will require broad acceptance of the devices by the doctors and other medical professionals who specialize in the procedures targeted by each device, a limited number of whom may be able to influence device selection and purchasing decisions. If Microbot s technologies are not broadly accepted and perceived as having significant advantages over existing medical devices, then Microbot will not meet its business objectives. Such perceptions are likely to be based on a determination by medical facilities and physicians that Microbot s product candidates are safe and effective, are cost-effective in comparison to existing devices, and represent acceptable methods of treatment. Microbot cannot assure that it will be able to establish the relationships and arrangements with medical facilities and physicians necessary to support the market uptake of its product candidates. In addition, its competitors may develop new technologies for the same markets Microbot is targeting that are more attractive to medical facilities and physicians. If doctors and other medical professionals do not consider Microbot product candidates to be suitable for application in the procedures we are targeting and an improvement over the use of existing or competing products, Microbot s business goals will not be realized.

Customers will be unlikely to buy the SCS or the TipCAT unless Microbot can demonstrate that they can be produced for sale to consumers at attractive prices.

To date, Microbot has focused primarily on research and development of the first generation versions of the SCS and the TipCAT. Consequently, Microbot has no experience in manufacturing its product candidates, and intends to manufacture its product candidates through third-party manufacturers. Microbot can offer no assurance that either it or its manufacturing partners will develop efficient, automated, low-cost manufacturing capabilities and processes to meet the quality, price, engineering, design and production standards or production volumes required to successfully mass produce its commercial products. Even if its manufacturing partners are successful in developing such manufacturing capability and quality processes, including the assurance of GMP-compliant device manufacturing, there can be no assurance that Microbot can timely meet its product commercialization schedule or the production and delivery requirements of potential customers. A failure to develop such manufacturing processes and capabilities could have a material adverse effect on Microbot s business and financial results.

The proposed price of Microbot s product candidates, once approved for sale, will be dependent on material and other manufacturing costs. Microbot cannot offer any assurances that its manufacturing partner will be able manufacture its product candidates at a competitive price or that achieving cost reductions will not cause a reduction in the performance, reliability and longevity of its product candidates.

Microbot has relied on, and intends to continue to rely on, third-party manufacturers to produce its product candidates.

Microbot currently relies, and expects to rely for the foreseeable future, on third-party manufacturers to produce and supply its product candidates, and it expects to rely on third parties to manufacture the commercialized products as

well, should they receive the necessary regulatory clearance or approval. Reliance on

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third-party manufacturers entails risks to which Microbot would not be subject if Microbot manufactured its product candidates or future commercial products itself, including:

- limitations on supply availability resulting from capacity, internal operational problems or scheduling constraints of third parties;
- potential regulatory non-compliance or other violations by the third-party manufacturer that could result in quality assurance issues or government enforcement action that has a negative effect on Microbot s product candidates and distribution strategy;
- the possible breach of manufacturing agreements by third parties because of various factors beyond Microbot s control; and
- the possible termination or non-renewal of manufacturing agreements by third parties for various reasons beyond Microbot s control, at a time that is costly or inconvenient to Microbot.

If Microbot is not able to maintain its key manufacturing relationships, Microbot may fail to find replacement manufacturers or develop its own manufacturing capabilities, which could delay or impair Microbot s ability to obtain regulatory clearance or approval for its product candidates and could substantially increase its costs or deplete profit margins, if any. If Microbot does find replacement manufacturers, Microbot may not be able to enter into agreements with them on terms and conditions favorable to it and there could be a substantial delay before new facilities could be qualified and registered with the FDA and other foreign regulatory authorities.

If Microbot s product candidates are not considered to be a safe and effective alternative to existing technologies, Microbot will not be commercially successful.

The SCS and TipCAT rely on new technologies, and Microbot s success will depend on acceptance of these technologies by the medical community as safe, clinically effective, cost effective and a preferred device as compared to products of its competitors. Microbot does not have long-term data regarding efficacy, safety and clinical outcomes associated with the use of SCS or TipCAT. Any data that is generated in the future may not be positive or may not support the product candidates regulatory dossiers, which would negatively affect market acceptance and the rate at which its product candidates are adopted. Equally important will be physicians perceptions of the safety of Microbot s product candidates because Microbot s technologies are relatively new. If, over the long term, Microbot s product candidates do not meet surgeons expectations as to safety, efficacy and ease of use, they may not become widely adopted.

Market acceptance of Microbot s product candidates will also be affected by other factors, including Microbot s ability to convince key opinion leaders to provide recommendations regarding its product candidates; convince distributors that its technologies are attractive alternatives to existing and competing technologies; supply and service sufficient quantities of products directly or through marketing alliances; and price products competitively in light of the current macroeconomic environment, which is becoming increasingly price sensitive.

Microbot may be subject to penalties and may be precluded from marketing its product candidates if Microbot fails to comply with extensive governmental regulations.

Microbot believes that its medical device product candidates will be categorized as Class II devices, which typically require a 510(k) or 510(k) de-novo premarket submission to the FDA. However, the FDA has not made any determination about whether Microbot s medical product candidates are Class II medical devices and may disagree with that classification. If the FDA determines that Microbot s product candidates should be reclassified as Class III medical devices, Microbot could be precluded from marketing the devices for clinical use within the United States for months, years or longer, depending on the specifics of the change in classification. Reclassification of any of Microbot s product candidates as Class III medical devices could significantly increase Microbot s regulatory costs, including the timing and expense associated with required clinical trials and other costs.

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The FDA and non-U.S. regulatory authorities require that Microbot product candidates be manufactured according to rigorous standards. These regulatory requirements significantly increase Microbot s production costs, which may prevent Microbot from offering products within the price range and in quantities necessary to meet market demands. If Microbot or one of its third-party manufacturers changes an approved manufacturing process, the FDA may need to review the process before it may be used. Failure to comply with applicable pre-market and post-market regulatory requirements could subject Microbot to enforcement actions, including warning letters, fines, injunctions and civil penalties, recall or seizure of its products, operating restrictions, partial suspension or total shutdown of its production, and criminal prosecution.

If Microbot is not able to both obtain and maintain adequate levels of third-party reimbursement for procedures involving its product candidates after they are approved for marketing and launched commercially, it would have a material adverse effect on Microbot s business.

Healthcare providers and related facilities are generally reimbursed for their services through payment systems managed by various governmental agencies worldwide, private insurance companies, and managed care organizations. The manner and level of reimbursement in any given case may depend on the site of care, the procedure(s) performed, the final patient diagnosis, the device(s) utilized, available budget, or a combination of these factors, and coverage and payment levels are determined at each payor s discretion. The coverage policies and reimbursement levels of these third-party payors may impact the decisions of healthcare providers and facilities regarding which medical products they purchase and the prices they are willing to pay for those products. Microbot cannot assure you that its sales will not be impeded and its business harmed if third-party payors fail to provide reimbursement for Microbot products that healthcare providers view as adequate.

In the United States, Microbot expects that its product candidates, once approved, will be purchased primarily by medical institutions, which then bill various third-party payors, such as the Centers for Medicare & Medicaid Services, or CMS, which administers the Medicare program through Medicare Administrative Contractors, and other government health care programs and private insurance plans, for the healthcare products and services provided to their patients. The process involved in applying for coverage and incremental reimbursement from CMS is lengthy and expensive. Moreover, many private payors look to CMS in setting their reimbursement policies and amounts. If CMS or other agencies limit coverage for procedures utilizing Microbot s products or decrease or limit reimbursement payments for doctors and hospitals utilizing Microbot s products, this may affect coverage and reimbursement determinations by many private payors.

If a procedure involving a medical device is not reimbursed separately by a government or private insurer, then a medical institution would have to absorb the cost of Microbot s products as part of the cost of the procedure in which the products are used. At this time, Microbot does not know the extent to which medical institutions would consider insurers payment levels adequate to cover the cost of its products. Failure by hospitals and surgeons to receive an amount that they consider to be adequate reimbursement for procedures in which Microbot products are used could deter them from purchasing Microbot products and limit sales growth for those products.

Microbot has no control over payor decision-making with respect to coverage and payment levels for its medical device product candidates, once they are approved. Additionally, Microbot expects many payors to continue to explore cost-containment strategies (e.g., comparative and cost-effectiveness analyses, so-called pay-for-performance programs implemented by various public government health care programs and private third-party payors, and expansion of payment bundling initiatives, and other such methods that shift medical cost risk to providers) that may potentially impact coverage and/or payment levels for Microbot s current product candidates or products Microbot develops in the future.

As Microbot s product offerings are used across diverse healthcare settings, they will be affected to varying degrees by the different payment systems.

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Clinical outcome studies for the SCS may not provide sufficient data to make Microbot s product candidates the standard of care.

Microbot s business plan relies on the broad adoption by surgeons of the SCS for primary shunt placement procedures to prevent shunt occlusions. Although Microbot believes the occurrence of shunt occlusion complications is well known among physicians practicing in the relevant medical fields, SCS may be adopted for replacement shunt surgeries only. Neurosurgeons may adopt SCS for primary shunt placement procedures only upon additional clinical studies with longer follow up periods, if at all. It may also be necessary to provide outcome studies on the preventative capabilities of the SCS in order to convince the medical community of its safety and efficacy. Clinical studies may not show an advantage in SCS based procedures in a timely manner, or at all, and outcome studies have not been designed at this time, and may be too large and too costly for Microbot to conduct. Both situations could prevent broad adoption of the SCS and materially impact Microbot s business.

Microbot products may in the future be subject to mandatory product recalls that could harm its reputation, business and financial results.

The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture that could pose a risk of injury to patients. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is a reasonable probability that the device would cause serious injury or death, although in most cases this mandatory recall authority is not used because manufacturers typically initiate a voluntary recall when a device violation is discovered. In addition, foreign governmental bodies have the authority to require the recall of Microbot products in the event of material deficiencies or defects in design or manufacture. Manufacturers may, under their own initiative, recall a product if any material deficiency in a device is found. A government-mandated or voluntary recall by Microbot or one of its distributors could occur as a result of component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any Microbot products would divert managerial and financial resources and have an adverse effect on Microbot s financial condition and results of operations, and any future recall announcements could harm Microbot s reputation with customers and negatively affect its sales. In addition, the FDA could take enforcement action, including any of the following sanctions for failing to timely report a recall to the FDA:

untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;

detention or seizure of Microbot products;

operating restrictions or partial suspension or total shutdown of production;

refusing or delaying requests for 510(k) clearance or premarket approval of new products or modified products;

withdrawing 510(k) clearances or other types of regulatory authorizations -that have already been granted;

refusing to grant export approval for Microbot products; or

criminal prosecution.

If Microbot s future commercialized products cause or contribute to a death or a serious injury, Microbot will be subject to Medical Device Reporting regulations, which can result in voluntary corrective actions or agency enforcement actions.

Under FDA regulations, Microbot will be required to report to the FDA any incident in which a marketed medical device product may have caused or contributed to a death or serious injury or in which a medical device malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. In addition, all manufacturers placing medical devices in European Union markets are legally bound to report any serious or potentially serious incidents involving devices they produce or sell to the relevant authority in whose jurisdiction the incident occurred.

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Microbot anticipates that in the future it is likely that we may experience events that would require reporting to the FDA pursuant to the Medical Device Reporting (MDR) regulations. Any adverse event involving a Microbot product could result in future voluntary corrective actions, such as product actions or customer notifications, or agency actions, such as inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending Microbot in a lawsuit, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

Microbot could be exposed to significant liability claims if Microbot is unable to obtain insurance at acceptable costs and adequate levels or otherwise protect itself against potential product liability claims.

The testing, manufacture, marketing and sale of medical devices entail the inherent risk of liability claims or product recalls. Product liability insurance is expensive and may not be available on acceptable terms, if at all. A successful product liability claim or product recall could inhibit or prevent the successful commercialization of Microbot s products, cause a significant financial burden on Microbot, or both, which in any case could have a material adverse effect on Microbot s business and financial condition.

The results of Microbot s research and development efforts are uncertain and there can be no assurance of the commercial success of Microbot s product candidates.

Microbot believe that its success will depend in part on its ability to expand its product offerings and continue to improve its existing product candidates in response to changing technologies, customer demands and competitive pressures. As such, Microbot expects to continue dedicating significant resources in research and development. The product candidates and services being developed by Microbot may not be technologically successful. In addition, the length of Microbot s product candidates and service development cycle may be greater than Microbot originally expected.

If Microbot fail to retain certain of its key personnel and attract and retain additional qualified personnel, Microbot might not be able to pursue its growth strategy effectively.

Microbot is dependent on its senior management, in particular Harel Gadot, Microbot s Chief Executive Officer. Although Microbot believes that its relationship with members of its senior management is positive, there can be no assurance that the services of any of these individuals will continue to be available to Microbot in the future. Microbot s future success will depend in part on its ability to retain its management and scientific teams, to identify, hire and retain additional qualified personnel with expertise in research and development and sales and marketing, and to effectively provide for the succession of senior management, when necessary. Competition for qualified personnel in the medical device industry is intense and finding and retaining qualified personnel with experience in the industry is very difficult. Microbot believes that there are only a limited number of individuals with the requisite skills to serve in key positions at Microbot, particularly in Israel, and it competes for key personnel with other medical equipment and technology companies, as well as research institutions.

Microbot does not carry, and does not intend to carry, any key man life insurance policies on any of its existing executive officers.

Risks Relating to International Business

If Microbot fails to obtain regulatory clearances in other countries for its product candidates under development, Microbot will not be able to commercialize these product candidates in those countries.

In order for Microbot to market its product candidates in countries other than the United States, Microbot must comply with the safety and quality regulations in such countries.

In Europe, these regulations, including the requirements for approvals, clearance or grant of Conformité Européenne, or CE, Certificates of Conformity and the time required for regulatory review, vary from country to

country. Failure to obtain regulatory approval, clearance or CE Certificates of Conformity (or equivalent) in any foreign country in which Microbot plans to market its product candidates may harm its ability to generate revenue and harm its business. Approval and CE marking procedures vary among countries and can involve additional product testing and additional administrative review periods. The time required to obtain approval or CE Certificate of Conformity in other countries might differ from that required to obtain FDA clearance. The regulatory approval or CE marking process in other countries may include all of the risks detailed above regarding FDA clearance in the United States. Regulatory approval or the CE marking of a product candidate in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval or a CE Certificate of Conformity in one country may negatively impact the regulatory process in others. Failure to obtain regulatory approval or a CE Certificate of Conformity in other countries or any delay or setback in obtaining such approval could have the same adverse effects described above regarding FDA clearance in the United States.

Microbot cannot be certain that it will be successful in complying with the requirements of the CE Certificate of Conformity and receiving a CE Mark for its product candidates or in continuing to meet the requirements of the Medical Devices Directive in the European Economic Area (EEA).

Israel s Medical Devices Law generally requires the registration of all medical products with the Ministry of Health, or MOH, Registrar through the submission of an application to the Ministry of Health Medical Institutions and Devices Licensing Department, or AMAR. If the application includes a certificate issued by a competent authority of a recognized country, which includes Australia, Canada, the European Community Member States, Japan or the United States, the registration process is expedited, but is generally still expected to take 6 to 9 months for approval. If certification from a recognized country is not available, the registration process takes significantly longer and a license is rarely issued under such circumstances, as the MOH may require the presentation of significant additional clinical data. Once granted, a license (marketing authorization) for a medical device is valid for five years from the date of registration of the device, except for implants with a life-supporting function, for which the validity is for only two years from the date of registration. Furthermore, the holder of the license must meet several additional requirements to maintain the license. Microbot cannot be certain that it will be successful in applying for a license from the MOH for its product candidates.

Microbot operations in international markets involve inherent risks that Microbot may not be able to control.

Microbot s business plan includes the marketing and sale of its proposed product candidates internationally, and specifically in Europe and Israel. Accordingly, Microbot s results could be materially and adversely affected by a variety of factors relating to international business operations that it may or may not be able to control, including:

- adverse macroeconomic conditions affecting geographies where Microbot intends to do business;
- foreign currency exchange rates;
- political or social unrest or economic instability in a specific country or region;
- higher costs of doing business in certain foreign countries;

infringement claims on foreign patents, copyrights or trademark rights;

difficulties in staffing and managing operations across disparate geographic areas;

difficulties associated with enforcing agreements and intellectual property rights through foreign legal systems;

trade protection measures and other regulatory requirements, which affect Microbot s ability to import or export its product candidates from or to various countries;

adverse tax consequences;

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unexpected changes in legal and regulatory requirements;

military conflict, terrorist activities, natural disasters and medical epidemics; and

Microbot s ability to recruit and retain channel partners in foreign jurisdictions.

Microbot s financial results may be affected by fluctuations in exchange rates and Microbot s current currency hedging strategy may not be sufficient to counter such fluctuations.

Microbot s financial statements are denominated in U.S. dollars and the financial results of the combined company are expected to be denominated in U.S. dollars, while a significant portion of Microbot s business is conducted, and a substantial portion of its operating expenses are payable, in currencies other than the U.S. dollar. Exchange rate fluctuations may have an adverse impact on Microbot s future revenues or expenses as presented in the financial statements. Microbot may in the future use financial instruments, such as forward foreign currency contracts, in its management of foreign currency exposure. These contracts would primarily require Microbot to purchase and sell certain foreign currencies with or for U.S. dollars at contracted rates. Microbot may be exposed to a credit loss in the event of non-performance by the counterparties of these contracts. In addition, these financial instruments may not adequately manage Microbot s foreign currency exposure. Microbot s results of operations could be adversely affected if Microbot is unable to successfully manage currency fluctuations in the future.

Risks Relating to Microbot s Intellectual Property

Microbot s right to develop and commercialize its existing product candidates are subject to the terms and condition of a license granted to Microbot by Technion Research and Development Foundation Ltd and termination of the license with respect to one or both of the technology platforms underlying the product candidates would result in Microbot ceasing its development efforts for the applicable product candidate(s).

Microbot entered into a license agreement with Technion Research and Development Foundation Ltd., or TRDF, in 2012 pursuant to which Microbot obtained an exclusive, worldwide, royalty-bearing, sub-licensable license to certain patents and inventions relating to the SCS and TipCAT technology platforms. Pursuant to the terms of the license agreement, in order to maintain the license with respect to each platform, Microbot must use commercially reasonable efforts to develop products covered by the license, including meeting certain agreed upon development milestones. TRDF has the option to terminate a license granted with respect a particular technology in the event Microbot fails to meet a development milestone associated with such technology. Therefore, the failure to meet development milestones may lead to a complete termination of the applicable license agreement and result in Microbot ceasing its development efforts for the applicable product candidate. The milestones for SCS include commencing initial studies in humans by December 2018 and commencing a clinical trial, if necessary, by December 2019. The milestones for TipCAT include commencing initial studies in humans by December 2018 and commencing a full clinical trial, if necessary, by December 2020. Failure to meet any development milestone will give TRDF the right to terminate the license with respect to the technology underlying the missed milestone. Although Microbot expects to meet the milestone requirements, TRDF has demonstrated flexibility with respect to amending the terms of the license to extend the milestone dates.

Under the license agreement, Microbot is also subject to various other obligations, including obligations with respect to payment upon the achievement of certain milestones and royalties on product sales. TRDF may terminate the license agreement under certain circumstances, including material breaches by Microbot or under certain bankruptcy or insolvency events. In the case of termination of the license by Microbot without cause or by TRDF for cause,

TRDF has the right to receive a non-exclusive license from Microbot with respect to improvements to the licensed technologies made by Microbot.

If TRDF were to terminate the license agreement or if Microbot was to otherwise lose the ability to exploit the licensed patents, Microbot s competitive advantage could be reduced or terminated, and Microbot will likely not be able to find a source to replace the licensed technology.

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However, if there is any future dispute between Microbot and TRDF regarding the respective parties rights under the license agreement, Microbot s ability to develop and commercialize the SCS and TipCAT may be materially harmed.

Microbot may not meet its product candidates development and commercialization objectives in a timely manner or at all.

Microbot has established internal goals, based upon expectations with respect to its technologies, which Microbot has used to assess its progress toward developing its product candidates. These goals relate to technology and design improvements as well as to dates for achieving specific development results. If the product candidates exhibit technical defects or are unable to meet cost or performance goals, Microbot s commercialization schedule could be delayed and potential purchasers of its initial commercialized products may decline to purchase such products or may opt to pursue alternative products, which would materially harm its business.

Intellectual property litigation and infringement claims could cause Microbot to incur significant expenses or prevent Microbot from selling certain of its product candidates.

The medical device industry is characterized by extensive intellectual property litigation. From time to time, Microbot might be the subject of claims by third parties of potential infringement or misappropriation. Regardless of outcome, such claims are expensive to defend and divert the time and effort of Microbot s management and operating personnel from other business issues. A successful claim or claims of patent or other intellectual property infringement against Microbot could result in its payment of significant monetary damages and/or royalty payments or negatively impact its ability to sell current or future products in the affected category and could have a material adverse effect on its business, cash flows, financial condition or results of operations.

If Microbot or TRDF are unable to protect the patents or other proprietary rights relating to Microbot s product candidates, or if Microbot infringes on the patents or other proprietary rights of others, Microbot s competitiveness and business prospects may be materially damaged.

Microbot s success depends on its ability to protect its intellectual property (including its licensed intellectual property) and its proprietary technologies. Microbot s commercial success depends in part on its ability to obtain and maintain patent protection and trade secret protection for its product candidates, proprietary technologies, and their uses, as well as its ability to operate without infringing upon the proprietary rights of others.

Microbot currently hold, through licenses or otherwise, an intellectual property portfolio that includes U.S. and international patents and pending patents, and other patents under development. Microbot intend to continue to seek legal protection, primarily through patents, including the TRDF licensed patents, for its proprietary technology. Seeking patent protection is a lengthy and costly process, and there can be no assurance that patents will be issued from any pending applications, or that any claims allowed from existing or pending patents will be sufficiently broad or strong to protect its proprietary technology. There is also no guarantee that any patents Microbot holds, through licenses or otherwise, will not be challenged, invalidated or circumvented, or that the patent rights granted will provide competitive advantages to Microbot. Microbot s competitors have developed and may continue to develop and obtain patents for technologies that are similar or superior to Microbot s technologies. In addition, the laws of foreign jurisdictions in which Microbot develops, manufactures or sells its product candidates may not protect Microbot s intellectual property rights to the same extent as do the laws of the United States.

Adverse outcomes in current or future legal disputes regarding patent and other intellectual property rights could result in the loss of Microbot s intellectual property rights, subject Microbot to significant liabilities to third parties, require Microbot to seek licenses from third parties on terms that may not be reasonable or

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favorable to Microbot, prevent Microbot from manufacturing, importing or selling its product candidates, or compel Microbot to redesign its product candidates to avoid infringing third parties intellectual property. As a result, Microbot may be required to incur substantial costs to prosecute, enforce or defend its intellectual property rights if they are challenged. Any of these circumstances could have a material adverse effect on Microbot s business, financial condition and resources or results of operations.

Microbot has the first right, but not the obligation, to control the prosecution, maintenance or enforcement of the licensed patents from TRDF. However, there may be situations in which Microbot will not have control over the prosecution, maintenance or enforcement of the patents that Microbot licenses, or may not have sufficient ability to consult and input into the patent prosecution and maintenance process with respect to such patents. If Microbot does not control the patent prosecution and maintenance process with respect to the TRDF licensed patents, TRDF may elect to do so but may fail to take the steps that are necessary or desirable in order to obtain, maintain and enforce the licensed patents.

Microbot s ability to develop intellectual property depends in large part on hiring, retaining and motivating highly qualified design and engineering staff and consultants with the knowledge and technical competence to advance its technology and productivity goals. To protect Microbot s trade secrets and proprietary information, Microbot has entered into confidentiality agreements with its employees, as well as with consultants and other parties. If these agreements prove inadequate or are breached, Microbot s remedies may not be sufficient to cover its losses.

Dependence on patent and other proprietary rights and failing to protect such rights or to be successful in litigation related to such rights may result in Microbot s payment of significant monetary damages or impact offerings in its product portfolios.

Microbot s long-term success largely depends on its ability to market technologically competitive product candidates. If Microbot fails to obtain or maintain adequate intellectual property protection, it may not be able to prevent third parties from using its proprietary technologies or may lose access to technologies critical to our product candidates. Also, Microbot currently pending or future patent applications may not result in issued patents, and issued patents are subject to claims concerning priority, scope and other issues.

Furthermore, Microbot has not filed applications for all of our patents internationally and it may not be able to prevent third parties from using its proprietary technologies or may lose access to technologies critical to its product candidates in other countries.

Risks Relating to Operations in Israel

Microbot s headquarters are located in Israel, and therefore, political conditions in Israel may affect Microbot s operations and results.

Microbot s executive offices are located in Israel and the executive offices of the combined company are expected to be located in Israel. In addition, the majority of its directors, who may also be the directors of the combined company, are residents of Israel. Accordingly, political, economic and military conditions in Israel will directly or indirectly affect Microbot s operations and results. Since the establishment of the State of Israel, a number of armed conflicts have taken place between Israel and its Arab neighbors. An ongoing state of hostility, varying in degree and intensity has led to security and economic problems for Israel. For a number of years there have been continuing hostilities between Israel and the Palestinians. This includes hostilities with the Islamic movement Hamas in the Gaza Strip, which have adversely affected the peace process and at times resulted in armed conflicts. Such hostilities have negatively influenced Israel s economy as well as impaired Israel s relationships with several other countries. Israel also

faces threats from Hezbollah militants in Lebanon, from ISIS and rebel forces in Syria, from the government of Iran and other potential threats from additional countries in the region. Moreover, some of Israel s neighboring countries have recently undergone or are undergoing significant political changes. These political, economic and military conditions in Israel could have a material adverse effect on Microbot s business, financial condition, results of operations and future growth.

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Political relations could limit Microbot s ability to sell or buy internationally.

Microbot could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel, with Israeli companies or with Israeli-owned companies operating in other countries. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for Microbot s activities. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. There can be no assurance that restrictive laws, policies or practices directed towards Israel or Israeli businesses will not have an adverse impact on Microbot s business.

Israel s economy may become unstable.

From time to time, Israel s economy may experience inflation or deflation, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. For these and other reasons, the government of Israel has intervened in the economy employing fiscal and monetary policies, import duties, foreign currency restrictions, controls of wages, prices and foreign currency exchange rates and regulations regarding the lending limits of Israeli banks to companies considered to be in an affiliated group. The Israeli government has periodically changed its policies in these areas. Reoccurrence of previous destabilizing factors could make it more difficult for Microbot to operate its business and could adversely affect its business.

Exchange rate fluctuations between the U.S. dollar and the NIS currencies may negatively affect Microbot s operating costs.

A significant portion of Microbot s expenses is paid in New Israeli Shekels, or NIS, but its financial statements are denominated in U.S. dollars. As a result, Microbot is exposed to the risks that the NIS may appreciate relative to the U.S. dollar, or the NIS instead devalues relative to the U.S. dollar, and the inflation rate in Israel may exceed such rate of devaluation of the NIS, or that the timing of such devaluation may lag behind inflation in Israel. In any such event, the U.S. dollar cost of Microbot s operations in Israel would increase and Microbot s U.S. dollar-denominated results of operations would be adversely affected. Microbot cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation (if any) of the NIS against the U.S. dollar.

Microbot s primary expenses paid in NIS that are not linked to the U.S. dollar are employee expenses in Israel and lease payments on its Israeli facility. If Microbot is unsuccessful in hedging against its position in NIS, a change in the value of the NIS compared to the U.S. dollar could increase Microbot s research and development expenses, labor costs and general and administrative expenses, and as a result, have a negative impact on Microbot s profits.

Funding and other benefits provided by Israeli government programs may be terminated or reduced in the future and the terms of such funding may have a significant impact on future corporate decisions.

Microbot participates in programs under the auspices of the Israeli Office of the Chief Scientist, or OCS, for which it receives funding for the development of its technologies and product candidates. If Microbot fails to comply with the conditions applicable to this program, it may be required to pay additional penalties or make refunds and may be denied future benefits. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under this program, and therefore these benefits may not be available in the future at their current levels or at all.

Microbot s research and development efforts from inception until now have been financed in part through such OCS royalty bearing grants in an aggregate amount of US$893,673 through June 30, 2016. With respect to such grants

Microbot is committed to pay royalties at a rate of between 3% to 3.5% on sales proceeds up to the

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total amount of grants received, linked to the dollar, plus interest at an annual rate of USD LIBOR. In addition, as a recipient of OCS grants, Microbot must comply with the requirements of the Israeli Encouragement of Industrial Research and Development Law, 1984, or the R&D Law, and related regulations. Under the terms of the grants and the R&D Law, Microbot is restricted from transferring any technologies, know-how, manufacturing or manufacturing rights developed using OCS grants outside of Israel without the prior approval of OCS. Therefore, if aspects of its technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of the technologies, know-how, manufacturing or manufacturing rights related to such aspects. Furthermore, the OCS may impose certain conditions on any arrangement under which it permits Microbot to transfer technology or development outside of Israel or may not grant such approvals at all.

If approved, the transfer of OCS-supported technology or know-how outside of Israel may involve the payment of significant fees, which will depend on the value of the transferred technology or know-how, the total amount OCS funding received by Microbot, the number of years since the funding and other factors. These restrictions and requirements for payment may impair Microbot s ability to sell its technology assets outside of Israel or to outsource or transfer development or manufacturing activities with respect to any product or technology outside of Israel. Furthermore, the amount of consideration available to Microbot s shareholders in a transaction involving the transfer of technology or know-how developed with OCS funding outside of Israel (such as through a merger or other similar transaction) may be reduced by any amounts that Microbot is required to pay to the OCS.

Some of Microbot s employees and officers are obligated to perform military reserve duty in Israel.

Generally, Israeli adult male citizens and permanent residents are obligated to perform annual military reserve duty up to a specified age. They also may be called to active duty at any time under emergency circumstances, which could have a disruptive impact on Microbot s workforce.

It may be difficult to enforce a non-Israeli judgment against Microbot or its officers and directors.

Upon the consummation of the Merger, the operating subsidiary of the combined company will be incorporated in Israel. Some of Microbot s executive officers and directors who will be executive officers and directors of the combined company are not residents of the United States, and a substantial portion of Microbot s assets and the assets of its executive officers and directors are located outside the United States. Therefore, a judgment obtained against Microbot, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not necessarily be enforced by an Israeli court. It also may be difficult to affect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. Additionally, it may be difficult for an investor, or any other person or entity, to initiate an action with respect to U.S. securities laws in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law often involves the testimony of expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against Microbot in Israel, it may be impossible to collect any damages awarded by either a U.S. or foreign court.

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Risks Relating to Microbot s Securities and Governance Matters

The existing shareholders of Microbot will control the combined company for the foreseeable future, including the outcome of matters requiring shareholder approval and such control may prevent existing stockholders of StemCells from influencing significant corporate decisions and may result in conflicts of interest that could cause the combined company s stock price to decline.

Upon completion of the Merger, the existing shareholders of Microbot, including certain shareholders holding 5% or more of the total ownership interest in Microbot, and its executive officers and directors, and advisors with respect to the Merger will collectively own approximately 95% of the combined company s outstanding shares of Common Stock. As a result, after the consummation of the Merger, such entities and individuals will have the ability, acting together, to control the election of the combined company s directors and the outcome of corporate actions requiring shareholder approval, such as: (i) a Merger or a sale of the combined company, (ii) a sale of all or substantially all of the combined company s assets, and (iii) amendments to the combined company s articles of incorporation and bylaws. This concentration of voting power and control could have a significant effect in delaying, deferring or preventing an action that might otherwise be beneficial to the combined company s other shareholders and be disadvantageous to Microbot shareholders with interests different from those entities and individuals. Certain of these individuals will also have significant control over the combined company s business, policies and affairs as officers or directors of the combined company. These stockholders may also exert influence in delaying or preventing a change in control of the combined company, even if such change in control would benefit the other stockholders of the combined company. In addition, the significant concentration of stock ownership may adversely affect the market value of the combined company s common stock due to investors perception that conflicts of interest may exist or arise.

Anti-takeover provisions in the combined company s charter and bylaws under Delaware law may prevent or frustrate attempts by stockholders to change the board of directors or current management and could make a third-party acquisition of the combined company difficult.

Provisions in the combined company s certificate of incorporation and bylaws, which are identical to StemCells certificate of incorporation and bylaws, may delay or prevent an acquisition or a change in management. These provisions include a classified board of directors. In addition, because the combined company will be incorporated in Delaware, it is governed by the provisions of Section 203 of the DGCL, which prohibits stockholders owning in excess of 15% of the outstanding combined company voting stock from merging or combining with the combined company. Although StemCells and Microbot believe these provisions collectively will provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with the combined company s board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by the combined company s stockholders to replace or remove then current management by making it more difficult for stockholders to replace members of the board of directors, which is responsible for appointing members of management.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement and the other documents referred to or incorporated by reference into this proxy statement contain or may contain forward-looking statements of StemCells within the meaning of Section 21E of the Exchange Act, which is applicable to StemCells, but not Microbot, because StemCells, unlike Microbot, is a public company subject to the reporting requirements of the Exchange Act. For this purpose, certain statements contained herein, other than statements of historical fact, may be forward-looking statements under the provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the fact that they do not relate strictly to historical or current facts. Statements that include words such as may , will , project , might , expect , believe , a intend , could , would , estimate , continue or pursue or the negative of these words or other words or expressio similar meaning may identify forward-looking statements. These forward-looking statements are found at various places throughout this proxy statement and the other documents referred to or incorporated by reference and relate to a variety of matters, including but not limited to (i) the timing and anticipated completion of the Merger, (ii) the benefits expected to result from the Merger, (iii) the anticipated business of the combined company following the completion of the Merger, and (iv) other statements that are not purely statements of historical fact. These forward-looking statements are made on the basis of the current beliefs, expectations, and assumptions of management are not guarantees of performance and are subject to significant risks and uncertainty. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this proxy statement and those that are referred to or incorporated by reference into this proxy statement. In addition to the risk factors identified elsewhere, important factors that could cause actual results to differ materially from those described in forward-looking statements contained herein include, but are not limited to:

- any operational or cultural difficulties associated with the integration of the businesses of StemCells and Microbot;
- potential adverse reactions or changes to business relationships resulting from the announcement or completion of the Merger;
- unexpected costs, charges or expenses resulting from the Merger;
- risks relating to the completion of the Merger, including the risk that the required stockholder approvals might not be obtained in a timely manner or at all or that other conditions to the completion of the Merger will not be satisfied;
- any difficulties associated with requests or directions from governmental authorities resulting from their reviews of the Merger; and
- any changes in general economic and/or industry-specific conditions.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement or, in the case of documents referred to in this proxy statement, as of the date of those documents. StemCells disclaims any obligation to publicly update or release any revisions to these forward-looking statements,

whether as a result of new information, future events or otherwise, after the date of this proxy statement or to reflect the occurrence of unanticipated events, except as required by law.

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THE MERGER

Background of the Merger

This section and the section entitled The Merger Agreement beginning on page 71 describe the material aspects of the Merger, including the Merger Agreement. While StemCells believes that this description covers the material terms of the Merger and the Merger Agreement, it may not contain all of the information that is important to you. You should read carefully this entire proxy statement for a more complete understanding of the Merger and the Merger Agreement, including the Merger Agreement itself, which is attached as Annex A and the opinion of Carabiner LLC, which is attached as Annex B.

Background of the Merger

The Company s Decision to Discontinue its Program in Age Related Macular Degeneration

In the fall of 2015, the Company s leadership team was asked to develop and evaluate strategic alternatives with the aim of reaching a value inflection point for StemCells stockholders by late 2017. At the time, the Company had two ongoing Phase II clinical studies to evaluate its proprietary HuCNS-SC platform technology (highly purified human neural stem cells). The first clinical study, called the Radiant Study, was a controlled Phase II study testing HuCNS-SC cells in patients with the dry form of age related macular degeneration (dry AMD). The second clinical study, called the Pathway Study, was a controlled Phase II study testing HuCNS-SC cells in patients with chronic cervical spinal cord injury.

Both programs (dry AMD and spinal cord injury) were based on compelling pre-clinical and early clinical data. However, at September 30, 2015, the Company had reported cash and cash equivalents of approximately $21 million, and estimated that it would cost an additional $100 million to complete both Phase II studies. Towards the end of 2015, the capital market for small publicly traded life science companies was depressed, especially for those companies focused on regenerative medicine. Some were trading at or near all-time lows, as was the Company.

Accordingly, on December 7 and 8, 2015, the Company s management team presented to the Board five possible operating plans, each with different anticipated impact on operations, headcount, cash requirements, financing opportunities, and likelihood of success. The Board considered and discussed, among other things, patient enrollment rates in both Phase II studies and the Company s likely prospects for reaching a successful outcome in one or both clinical studies. Management presented alternative budgets ranging from approximately $40 million to approximately $100 million over a two- to three-year period, together with their related operating plans, timelines, and rationales. Management also presented different alternative approaches for the Company s product development efforts, including the scale-up of cell manufacturing believed necessary to conduct pivotal clinical programs and commercial launch of a therapeutic based upon HuCNS-SC cells. Following discussion, the Board requested additional information largely relating to the Company s product development efforts, which had become a significant percentage of the Company s annual operating budget.

On December 16, 2015, the Board again met to discuss the different proposals from management for maximizing enterprise value by conserving corporate resources and focusing on only one of the Company s two Phase II clinical studies. Management presented various recommendations including a possible reduction in force. Following discussion, the Board decided to discontinue the Company s Radiant Study in dry AMD, focusing on the spinal cord injury program to substantially increase the Company s likelihood for success.

Following this meeting, on December 23, 2015, the Company announced its strategic realignment to fully focus the Company s resources on its proprietary HuCNS-SC cell platform technology for the treatment of chronic spinal cord injury. The decision to suspend the Company s dry AMD program, including its Phase II Radiant Study and a reduction in force of approximately 25%, was expected to reduce operating costs by approximately $20 million. As part of this strategic realignment, the Company also began a process of actively

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seeking to divest non-core assets and pursue non-dilutive financing alternatives. These efforts were intended to reduce cash needs and reliance on capital markets for further funding, expedite enrollment in the ongoing Phase II Pathway study in spinal cord injury, and allow the Company to continue a more limited, but still viable, process development scale up for initiation of a pivotal study in spinal cord injury.

The Company s Decision to Discontinue its Program in Spinal Cord Injury

As of the end of 2015, the Company had approximately $14.5 million in cash and cash equivalents, and a cash burn rate of approximately $2 million to $3 million per month. With the reduction in force and discontinuation of the Radiant Study, the Company anticipated needing more than $50 million to complete its Phase II Pathway Study in spinal cord injury and continue its planned product development activities, and the Company had a market valuation of just under $45 million. Market conditions, especially for small regenerative medicine companies, remained challenging.

In January and February 2016, the Company reviewed and considered various financing proposals received from potential investors and various investment banks and other intermediaries. On February 25, 2016, the Board approved resolutions to raise funds through either a preferred stock or common stock financing, with the target to raise gross proceeds of not less than $5 million and up to approximately $16 million. On March 8, 2016, the Company initiated a confidentially marketed public offering of common stock and common stock warrants (the 2016 CMPO). The Company raised just over $8 million in the 2016 CMPO. As part of the financing, the Company s underwriters required a lockup prohibiting the Company from conducting future equity financings for up to 120 days. During this time, recruitment in the Pathway Study continued on track and the 6-month and 9-month data from the first cohort of the Pathway Study remained encouraging. The trial was also beginning to attract media attention, although the Company s stock price continued to remain below $0.40 per share.

With an anticipated need to raise at least $20 million in 2016 to advance the Pathway Study, on April 20, 2016, the StemCells Board of Directors approved both a proposal to further narrow the Company s product development activities to reduce expenditures and a proposal to initiate a common stock rights offering. On May 23, 2016, after completing its 12:1 reverse stock split, the Company filed with the SEC a preliminary registration statement on Form S-1 for the planned rights offering.

However, by the end of May, the Company had received preliminary indications that some of the 12-month clinical data from the open cohort in the Pathway Study was less robust than the 6-month and 9-month data. While the 12-month data generally still showed an improvement over baseline for all patients in Cohort 1, the magnitude of the improvements appeared small and the possibility of a loss of improvement from 9-month time point to the 12-month time point called into question the durability of any clinical effect in this patient population. It was also unknown and unknowable whether less than robust 12-month data would be sufficiently compelling to successfully complete the Company s planned rights offering.

The StemCells Board of Directors held seven meetings from May 9 until May 30, 2016. In each of these meetings, the main topic of discussion concerned the data from the Pathway Study and its potential significance to patients with chronic spinal cord injury and to the Company s financing options. Some of the open questions included whether even small improvements in muscle strength and dexterity would translate into a meaningful improvement in quality of life for patients with complete paralysis and whether the data from such a small cohort of patients (just six patients) might be predictive of outcomes in the larger second cohort of patients, which at the time remained blinded to the Company.

Therefore, at the Board s direction, the Company engaged several key opinion leaders, including clinicians familiar with spinal cord injury and those who helped develop the GRASSP measurements used to test the patients in the

Pathway Study, to help answer these questions on an expedited basis. In addition, at its May 19, 2016 meeting, the Board approved management s recommendation to unblind some of the data from the second cohort from the study in the hope of determining, one way or another, whether the Pathway Study was worth pursuing to completion.

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The Company empaneled an Interim Analysis Data Monitoring Committee (the IA-DMC), consisting of three expert clinicians. With expert consultation and advice, the Company prepared a series of go/no go questions for the IA-DMC with the aim of using both data from Cohort 1 and unblinded data from Cohort 2 to assess the likelihood of success from the Pathway Study. The IA-DMC met on May 25, 2016 and determined that the data failed to clear most of the pre-established hurdles. In addition, after completing their assessments, the IA-DMC delivered to the Company the committee s written recommendation to discontinue the study.

With this information in hand, the Board met again on May 27, 2016, to discuss, among other things, the data from the Pathway Study, its prospects for success, the Company s cash needs, the methodologies and conclusions of the IA-DMC, and management s assessments. Following an assessment of different options available to the Company, the Board concluded that in light of the available clinical data and the IA-DMC s recommendation to discontinue the study, the Company s prospects to raise sufficient funds to complete enrollment in the Pathway Study and collect final data were very poor. The Board therefore instructed management to discontinue the Pathway Study and cease all clinical trial related activities as promptly as possible. The Board also instructed management to prepare a wind down plan, with the aim of maximizing the Company s residual enterprise value for all stakeholders, including stockholders and trade creditors.

The Decision to Enter into the Microbot Merger Agreement

Following the Board meeting held on May 27, 2016, the Company s management considered various wind-down scenarios, including the possibility of pursuing alternative disease indications as well as the possibility of repurposing the Company to pursue pre-clinical testing of its recently announced genetically modified human neural stem cell. This preclinical research, which was being conducted in collaboration with researchers at Stanford University and which provided the basis for a newly filed patent application, was considered promising, but the Company s overhead costs did not support a re-start of the business as a new cell discovery company. At this time, the Company had less than three months of cash on hand, and the likelihood of rapidly acquiring new technology in order to repurpose the business was also considered very low.

The Board met on May 30, 2016 to consider its strategic alternatives. As part of these deliberations, the Company s legal counsel advised the Board on its fiduciary responsibilities and management reviewed alternative plans. These alternative plans included (i) the potential for monetizing or further developing any of StemCells prior clinical development programs, including its earlier programs in rare genetic disorders, (ii) possible business combinations with other healthcare companies with other technologies under development; and (iii) the possibility of liquidating StemCells and distributing any remaining cash to stockholders. The Board also considered the possibility of divesting Company assets, both hard assets and intellectual property, together with a potential combination with a company interested in combining with StemCells.

The following day, on May 31, 2016, the Company announced the termination of the Pathway Study and the Company s plan to wind down operations. StemCells also began to evaluate measures to preserve its cash while maximizing stockholder value.

From the announced discontinuation of clinical activities on May 31 until execution of the Microbot Merger Agreement on August 15, 2016, the Company s Board of Directors held twelve special meetings. The initial meetings, the ones held on June 2, 16 and 28 and July 8, 12 and 15, 2016, preceded the execution of the letter of intent with Microbot and focused on evaluating the strategic alternatives for the Company, the potential wind down scenarios and the monetization alternatives for the Company s assets.

Early in the process, the Company solicited and received proposals for the possible engagement of an investment bank to help conduct one or more auctions of available assets. Most of the banks indicated that all the proposed transactions were likely too small to warrant an engagement, and none of the banks proposed engagement terms that were consistent with the Company s limited cash resources and timeline. Moreover, following the announcement of the wind down, the Company received numerous unsolicited expressions of

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interest to acquire one or more of the identified bundles of assets. The Company also sent out invitations to many businesses that had, from time to time in the past, expressed an interest in either partnering with or acquiring StemCells or its technologies, whether for specific disease indications or otherwise. For these reasons, the Company elected not to engage an investment bank.

By mid-June, the Company had entered into approximately 60 confidentiality agreements with bidders interested in potentially acquiring different Company assets. Active negotiations followed with approximately 40 of these bidders.

Four bidders expressed an interest in the Company s GMP manufacturing facility. It was decided from these negotiations that the deal structure would likely be an assignment of the Company s real property lease in Sunnyvale, California, coupled with a sale of the equipment located at the facility and the retention of technical employees who had been separated by StemCells as part of its reduction in force. Four bidders expressed an interest in the Company s proprietary animal models. Five bidders expressed an interest in the Company s research and laboratory equipment. Approximately 30 bidders, many of which were from outside the United States, expressed an interest in the Company s clinical research programs and/or intellectual property. Approximately 20 bidders, including Microbot, expressed an interest in combining with StemCells.

All these corporate opportunities were discussed and reviewed with the Company s Board of Directors at its meetings in June and early July. In particular, at the board meeting held of June 16, management presented to the Board over 30 potential acquirers of Company assets. The StemCells Board of directors asked about, and discussed with management, the different technologies being developed by the companies that had expressed an interest in combining with StemCells, likely deal structures, the advantages of different deals for the Company s stockholders and creditors, and likely preconditions to closing, among other things. With respect to bidders interested in combining with StemCells, management presented detailed information about each of the companies and their indications of interest, including (i) company-specific value drivers, such as descriptions of each company s clinical programs and potential fund-raising ability to support its programs, and (ii) transaction-specific value drivers, such as the valuation of the company, the proposed post-closing stock ownership split (*i.e.*, what percentage ownership would StemCells stockholders continue to own in the company) and the ability to close a transaction.

By the end of June 2016, more than 30 bidders had conducted due diligence on different aspects of the Company and, after having advanced dozens of negotiations over the span of six weeks, the Company had made significant progress narrowing the field of viable transactions. First, the Company had selected an auction house, Heritage Partners, to auction off the Company s laboratory and research equipment. Second, the Company determined that its plans to divest the GMP manufacturing facility had a reasonable chance of success in July, thereby potentially providing funds needed to extend the Company s timeline for completing any other transaction, especially a business combination. Third, the Board determined that any business combination would require $1-2 million in transaction costs, not including those needed to file the Company s Form 10-Q for the second quarter of fiscal year 2016.

At its meeting held on June 28, 2016, the Board of Directors of StemCells met again with management to review the entire landscape of ongoing negotiations, with the intent of selecting a subset to advance to the next round of consideration. Management presented approximately 40 potential bidders, ranging from those interested in acquiring certain Company patents to those interested in combining with the Company. Of these, approximately twenty had submitted term sheets or other non-binding expressions of interest; twelve of these, including Microbot s, involved some form of business combination.

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Of these twelve, management considered five as significantly less reliable, as they were made by bidders that appeared to lack funds sufficient to complete the proposed transaction without unspecified third party funding. The remaining seven bidders had presented preliminary non-binding indications of interest with the following terms:

Bidder	Proposed Transaction Structure	Key Proposed Terms
Microbot	Business combination	Current StemCells stockholders to retain approximately 5%; approximately $1.2MM bridge funding to offset transaction costs, plus additional funds to pay down liabilities
Bidder A	Business combination	$5MM bridge loan upon execution of merger agreement; current StemCells stockholders to retain approximately 1%; stated interest in pursuing HuCNS-SC cells in AMD
Bidder B	Convertible debt and preferred stock issuance	Secured convertible debt of $4MM; purchase of preferred stock equal to 51% of the vote; stated interest in retaining some cell-based research activities
Bidder C	Business combination coupled with common stock financing	Current stockholders to retain approximately 8-10%; preconditioned on concurrent fundraising
Bidder D	Common stock issuance	Purchase of 51% for $5.5 million
Bidder E	Common stock issuance	Purchase of 77% for $15 million; stated interest in retaining some cell-based research activities
Bidder F	Common stock issuance	Purchase of approximately 60% for $5-6 million

As a consequence of the Company s severe cash constraints and the high cash requirements for any business combination, the Board, at this meeting, concluded that one of the key preconditions for any merger transaction would be the willingness of an acquirer to provide a bridge loan to the Company to cover transaction costs, including those related to the preparation and filing of the Company s Form 10-Q for the second quarter of 2016, which was due to be filed on or before August 9, 2016. The Board also expressed an interest in selecting a finalist with whom to focus StemCells limited time and resources to negotiate a definitive merger agreement.

Following this, Company management engaged in accelerated negotiations with Microbot and the remaining Bidders A-F. Each of these bidders was invited to submit final terms for an acquisition, which had to include a mechanism for immediate bridge funding to the Company.

On or about June 30, 2016, BMR-Pacific Research Center LP (BMR), the Company s landlord at its Newark, CA facility, filed suit against StemCells claiming breach of the lease and damages in excess of $16 million (*BMR v. StemCells, Inc.*, Alameda County Superior Court case no. RG16821619; hereinafter the *Lease Litigation*).

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Bidder D passed on the Company s technology and withdrew its offer. Bidders C, E and F each indicated that it was unprepared to provide bridge funding prior to the execution of definitive agreements and failed to offer a business case that the Board believed would offer value to StemCells stockholders.

Bidders A and B and Microbot (collectively, the Three Finalists), in contrast, all presented revised offers that included attempts to address the Company s need for an immediate cash infusion. On July 5, Microbot submitted a revised letter of intent that included a commitment to provide a bridge loan of $530,000 upon execution of the term sheet and an additional bridge loan of $650,000 upon execution of the definitive merger agreement. On July 7, Bidder A submitted a revised term sheet that included a proposal to acquire the Company s intellectual property for $2 million as a source of bridge funding for a subsequent business combination transaction. Furthermore, also on July 7, Bidder B submitted a revised term sheet which included provisions for a secured note for $1.2 million, payable in two tranches the first for $530,000 in July and the second for $670,000 in August.

At its meeting held on July 8, 2016, the Board considered the revised terms proposed by the Three Finalists. The Board considered management s final recommendations, including the assessment that only the Microbot proposal showed a workable path forward to provide funding to cover transaction costs, funding to pay down Company trade payables, and a proposal that would provide the Company s stockholders with potential upside from a percentage ownership in the continuing company. The proposal from Bidder A remained preliminary and required significant additional due diligence from Bidder A, as the initial transaction (specifically, the sale of the Company s IP for $2 million) was contingent on significant additional due diligence and would require transaction costs, transfer of IP to the Company s foreign subsidiary, and the negotiation of an asset acquisition agreement. Bidder B s revised proposal was unclear, proposing that all bridge loan money was contingent upon final due diligence to Bidder B s satisfaction and execution of the definitive merger agreement documents, therefore failing to address the Board s principal need for speedy funding. In addition, Bidder B had no clear solution for addressing the Company s trade payables and other liabilities. It was also noted that, of the Three Finalists, Microbot had been the fastest and most focused in its negotiations and due diligence activities to date, which gave management higher confidence in Microbot s ability to successfully negotiate definitive merger agreements before the Company s 10-Q filing date. Accordingly, following this discussion and based on StemCells diligence and discussions with potential strategic partners, the Board agreed to narrow the focus of the process principally on Microbot.

Negotiation of the Microbot term sheet accelerated following the Board s July 8 meeting. The negotiations primarily revolved around three items: (1) how to divide the value of StemCells intellectual property if monetized, (2) what cash commitment existed from the Investor to pay down StemCells trade payables and other liabilities, and (3) the Investor s bridge funding commitment of approximately $1.2 million, so that the Company would have resources sufficient to complete the Merger.

During this time, the Company and the Investor began negotiating lending documents to provide for an immediate bridge loan to the Company of $530,000 to help fund transaction costs, including costs associated with the Company s Form 10-Q filing for the second quarter of 2016. Concurrently, the Company and Microbot, together with their legal advisors, continued to negotiate terms within the letter of intent.

At its July 12, 2016 meeting, the Board was provided an update from management on progress in the negotiation of the letter of intent and the lending documents as well as an update on the Company s efforts at settling the *Lease Litigation*. Additional negotiations followed.

At the July 15, 2016 Board meeting, management presented for possible approval a final letter of intent and secured lending documents for the Microbot transaction. The StemCells Board of Directors discussed and considered the options available to the company, including liquidation. Question were asked of, and answered by, management about

the process of securing the proposed letter of intent, as well as final recommendations. At this time, the Board authorized management to enter into a period of exclusive negotiation with Microbot for a

possible reverse triangular merger in which StemCells stockholders would continue to hold approximately 5% of the continuing company and with the aim of securing a bridge loan upon entering into a non-binding letter of intent by no later than July 22, 2016, so as to preserve the opportunity to complete an orderly wind-down and satisfaction of creditors if StemCells and Microbot were unable to successfully enter into a definitive merger agreement.

Discussions continued over the weekend, and it became clear that StemCells would not be able to enter into the Microbot letter of intent and receive the initial bridge loan of $530,000 unless the Company could successfully settle the *Lease Litigation* with BMR, its former landlord. In addition, BMR had, on July 12, filed an *ex parte* motion in the *Lease Litigation* seeking an attachment on all the Company s assets.

At about this time, on July 13, StemCells successfully entered into an agreement with Miltenyi Biotec, Inc., the U.S. wholly-owned subsidiary of Miltenyi Biotech GmbH, an international research tools supplier, for the divestiture of the Company s GMP manufacturing facility. This transaction brought $690,000 and reduced the Company s overall severance costs. Shortly thereafter, on July 20, StemCells successfully completed the auction of its remaining research and laboratory equipment for gross proceeds of approximately $880,000.

While negotiations of the Microbot merger slowed as the Company defended itself in the *Lease Litigation* and successfully opposed the landlord s *ex parte* motion, settlement discussions with BMR continued. At the end of July, the Company reached a tentative agreement for the settlement of the *Lease Litigation*, and the Microbot Investor agreed to increase its bridge loan offer by $800,000 to cover part of the litigation settlement costs. Thereafter, Microbot and StemCells, having just received the proceeds from the divestiture of its GMP manufacturing facility, modified the proposed term sheet to reflect a bridge loan of $2 million, payable upon execution of the definitive merger documents.

StemCells and Microbot executed the agreed-upon letter of intent on July 27, 2016 and the Company and BMR executed their settlement of the *Lease Litigation* on July 29, 2016.

Negotiation of definitive merger documents and more active due diligence of both companies began upon entering into the letter of intent. The drafting of the Merger Agreement began with a kick-off call on July 27 and culminated in the execution of the definitive deal documents, two and a half weeks later, on August 15, 2016.

Between July 27, when the parties executed the letter of intent, until August 15, when the parties entered into the definitive Merger Agreement, the Company s Board met to discuss the proposed transaction six times.

At its July 29, 2016 meeting, the Board received and discussed an update on negotiations, the proposed mechanism for paying down StemCells payables, and mechanics for negotiating the definitive merger agreements.

On July 30, 2016, Ropes & Gray LLP (Ropes), outside corporate counsel to StemCells, Inc., distributed the initial draft of the merger agreement to representatives from Microbot and its advisors and legal counsel, Ruskin Moscou Faltischek PC (Ruskin), Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC (Mintz Levin) and Abraham Moran & Co., Microbot s Israeli counsel (Abraham), as well as Investor s representative and its advisors and legal counsel, GreenBlock Capital (GreenBlock) and Ellenoff Grossman & Schole LLP (Ellenoff). StemCells, Microbot and the Investor, together with their respective advisors (namely, Ropes, Ruskin, Mintz Levin, Abraham, GreenBlock, and Ellenoff), became the working group responsible for negotiating and drafting the definitive merger documents, the Working Group. StemCells also engaged local Israeli counsel, S. Horowitz & Co., for specific consultation and advice; and, on July 31, 2016, the Company engaged Carabiner LLC to advise the Board with respect to the potential transaction, and to potentially provide a fairness opinion with respect to the consideration to be paid in connection with the potential transaction.

From August 1 through August 9, 2016, the Working Group held daily calls during which the Working Group reviewed all aspects of the proposed transaction. During this period of time, StemCells management team

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and outside advisors, including Carabiner, conducted targeted due diligence with respect to each company s financial position and funding opportunities as well as Microbot s product development programs, especially focusing on the timing of reaching stated milestones and probability of success.

On August 2, 2016, Ruskin provided the Working Group with a mark-up of the proposed merger agreement.

The Working Group held an all hands drafting call on August 3, 2016 in an attempt to address some of these open items.

At a meeting on August 3, 2016, the Board discussed and considered the proposal to renegotiate StemCells outstanding warrants, the commitments being made by the Investor to fund the transaction, plans to monetize the Company s intellectual property assets, and the desirability of paying down the Company s payables, among other things.

On August 4, 2016, Ropes provided the Working Group with a revised draft of the proposed merger agreement, including a high-level issues list based on Ruskin s mark-up of the merger agreement. The principal changes revolved around financing commitments from the Investor and interim operating covenants.

At a meeting on August 5, 2016, the Board further discussed and considered Microbot s financial position and fundraising opportunities, the planned exchange of some of StemCells outstanding warrants, and the mechanism for funding of StemCells payables. For the second half of this meeting, a representative from the Investor attended the meeting to answer questions about Microbot, the Investor and its interest in Microbot s product development programs.

At a meeting on August 9, 2016, the Board further discussed and considered the relative advantage of the merger against other alternatives available to the Company, including liquidation. The Company s outside legal counsel presented an update on the negotiations and the deal terms reflected in the draft merger agreement, noting open issues and certain Israeli law considerations. Discussion focused on the commitments from the Investor to bridge the Company s transaction costs, fund the pay down of StemCells payables and commit to making a substantial cash investment into Microbot prior to the closing of the merger.

On August 10, 2016, Ruskin provided the Working Group with a mark-up of the proposed merger agreement, following an all hands call. Additional changes were made to reconfirm the Investor s side letter commitment to fund Microbot prior to the closing of the Merger.

On August 11, 2016, Ropes provided the Working Group with a revised draft of the proposed merger agreement, following an all hands call to cover open items, consisting principally of the dispute mechanism relating to the closing net cash calculation and certain aspects of Israeli law.

On August 12, 2016, Ruskin provided the Working Group with a mark-up of the proposed merger agreement, following a working group call covering last remaining open items, including assurance for Microbot (i) that the Company could satisfy all its liabilities with cash available, plus Investor s committed funding, so that the Company could satisfy a net cash zero precondition to closing, and (ii) that the combined company could satisfy the NASDAQ listing requirements.

At its meeting on August 12, 2016, the Board further discussed and considered alternatives for monetizing the Company s intellectual property assets, the nature of the proposed bridge loan and the collateral. The Company s outside legal counsel presented the terms and conditions of the proposed lending agreements, including the initial secured note.

On August 14, 2016, Ropes provided the Working Group with a revised draft of the proposed merger agreement and on August 15, 2016, Ropes provided the Working Group with the final draft of the merger agreement.

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On August 14, 2016, a telephonic meeting of the StemCells Board of Directors was held for the purpose of (i) determining whether to approve the transaction with Microbot and direct management to enter into the definitive merger agreement, and (ii) discussing any other viable potential courses of action for the Company, including liquidation. Attendees included all members of the StemCells Board of Directors (except Dr. Trounson who was absent for health reasons), members of StemCells management team, a representative from Carabiner, and a representative from Ropes & Gray, the Company s outside corporate counsel in the transaction.

At the beginning of the meeting, the representative from Carabiner provided a detailed fairness presentation, during which directors questions were asked and answered. Following this, the representative from Carabiner orally presented its fairness opinion, which was confirmed by delivery of a written opinion dated August 14, 2016, that, as of that date, and based upon the assumptions, qualifications and limitations set forth in its opinion, the consideration to be paid in the merger was fair, from a financial point of view, to StemCells.

Following this, the representative from Ropes reviewed for the Board the directors fiduciary duties, including duty of care, duty of loyalty and duties in a change of control transaction, and the applicable judicial review standards. In addition, StemCells management had prepared and delivered to the Board in advance of this meeting new cash flow projections factoring in anticipated transaction costs and the quantification of expected severance and other costs. During this presentation, questions were asked by directors and addressed by management, including a detailed discussion about the minimum cash closing requirement and StemCells comfort level of satisfying that condition under various scenarios.

The StemCells Board of Directors expressed consensus and satisfaction that a full and complete process had been run and that the appropriate corporate governance steps had been taken. The Board reiterated its view that the proposed transaction was the best opportunity for maximizing stockholder value, noting the objective merits of both (i) the process run, (ii) the ultimate selection of Microbot based on probability-of-success grounds, and (iii) the deal terms. After discussion, the StemCells Board of Directors then unanimously (i) determined that the Merger was advisable and in the best interests of StemCells and its stockholders, (ii) approved the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement and deemed the Merger Agreement advisable, and (iii) approved and determined to recommend the approval of the issuance of the shares of StemCells common stock in connection with the Merger.

Management was directed to sign the Merger Agreement. In the morning of August 15, 2016, the Merger Agreement was signed by Dr. Massey on behalf of the Company. On August 15, 2016, StemCells and Microbot issued a joint press release publicly announcing the signing of the definitive Merger Agreement.

Reasons for the Merger

Following the Merger, the combined company will focus on the development of robotics based medical devices for the treatment of cerebrospinal fluid and gastrointestinal disorders, as well as other conditions.

The StemCells Board of Directors considered the following factors in reaching its conclusion to approve the Merger and to recommend that the StemCells stockholders approve the issuance of shares of StemCells common stock in the Merger, all of which the Board viewed as supporting its decision to approve the business combination with Microbot:

- The Board of Directors and management team of StemCells had undertaken a comprehensive and thorough process of reviewing and analyzing potential merger candidates to identify the opportunity that would, in the

Board s opinion, create the most value for StemCells stockholders, and with the greatest certainty for success.

The StemCells Board of Directors concluded, based in part on the judgment, advice and analysis of its management with respect to the potential strategic, financial and operational benefits of the Merger (which judgment, advice and analysis was informed in part by the business, technical, financial,

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accounting and legal due diligence investigation performed with respect to Microbot), that Microbot s product candidates, the Self Cleaning Shunt and TipCAT, may provide new medical benefits for a large underserved patient population and thereby generate potential returns for StemCells stockholders and attract new investors to the combined company.

The commitment from the Investor to provide pre-closing financing to Microbot was considered by the StemCells Board of Directors to likely be sufficient for the immediate term for advancing Microbot s products under development, given its business plans. The Board also considered the possibility that the combined company would be able to take advantage of the potential benefits resulting from the combination of the StemCells public company structure with Microbot s business to raise additional funds in the future, if necessary.

The Board concluded that the Microbot transaction provided the only reasonably viable path forward for satisfying a significant percentage of the Company s outstanding trade payables, while concurrently providing its stockholders with a continuing interest.

The StemCells Board of Directors concluded that the Merger would provide the existing StemCells stockholders a meaningful opportunity to participate in the potential growth of the combined company following the Merger.

The StemCells Board of Directors considered Carabiner s opinion to the Board as to the fairness to StemCells (attached hereto as Annex B), from a financial point of view and as of the date of the opinion, of the aggregate number of shares of StemCells common stock to be paid in the Merger.

The Board also reviewed the recent financial condition, results of operations and financial condition of StemCells, including:

the lack of success in developing StemCells lead product candidate, HuCNS-SC cells, and the unlikeliness that such circumstances would change for the benefit of its stockholders in the foreseeable future;

the loss of virtually all operational capabilities of StemCells, and the risks associated with continuing to operate StemCells on a stand-alone basis;

current financial market conditions and historical market prices, volatility and trading information with respect to StemCells common stock;

the low likelihood for obtaining a superior offer from an alternative purchaser in light of the other potential strategic buyers previously identified and contacted by, or on behalf of, StemCells and the risk of losing the proposed transaction with Microbot; and

the projected liquidation value of StemCells and the risks, costs and timing associated with liquidating compared to the value StemCells stockholders will receive in the Merger, including the fact that the Company had trade payables and other liabilities far in excess of any likely realizable value for the remaining assets in the Company.

The StemCells Board of Directors also reviewed the terms of the Merger and associated transactions, including:

that the number of shares of StemCells common stock to be issued in the Merger is fixed based on the relative valuations of the companies, and thus the relative percentage ownership of StemCells stockholders and Microbot shareholders immediately following the completion of the Merger is similarly fixed;

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the limited number and nature of the conditions to Microbot s obligation to consummate the Merger and the limited risk of non-satisfaction of such conditions as well as the likelihood that the Merger will be consummated on a timely basis;

the respective rights of, and limitations on, StemCells and Microbot under the Merger Agreement to consider certain unsolicited acquisition proposals under certain circumstances should StemCells or Microbot receive a superior proposal;

the voting agreements, pursuant to which officers, directors and certain shareholders of Microbot agreed, solely in their capacity as shareholders, to vote shares of their Microbot capital stock covering more than 50% of the outstanding shares of Microbot (on an as-converted to common stock basis) in favor of adoption of the Merger Agreement;

the fact that Microbot would as promptly as practicable solicit the approval of its shareholders to adopt the Merger Agreement and approve the Merger and other transactions contemplated by the Merger Agreement;

the commitment by the Investor to fund an initial bridge loan of $2 million to cover transaction costs and the costs associated with the Company s settlement of the *Lease Litigation*;

the commitment by the investor to fund up to an additional $2 million to allow the Company to pay down payables and other liabilities; and

the belief that the terms of the Merger Agreement, including the parties representations, warranties and covenants, and the conditions to their respective obligations, are reasonable under the circumstances.

In the course of its deliberations, the StemCells Board of Directors also considered a variety of risks and other countervailing factors related to entering into the Merger, including:

the substantial expenses to be incurred in connection with the Merger, including the costs associated with any related litigation;

the risk that the combined company would fail to satisfy the initial listing standards of the NASDAQ Capital Market, or one of the other conditions to closing;

the possible volatility, at least in the short term, of the trading price of StemCells common stock resulting from the Merger announcement;

the risk that the Merger might not be consummated in a timely manner or at all, the potential adverse effect of the public announcement of the Merger and the potential adverse effect of the delay or failure to complete the Merger on the reputation of StemCells;

the risk to the business of StemCells, operations and financial results in the event that the Merger is not consummated, including the diminution of StemCells cash and its likely inability to raise additional capital through the public or private sale of equity securities;

the strategic direction of the combined company following the completion of the Merger, which will be determined by the Board of Directors as designated by Microbot; and

various other risks associated with the combined organization and the Merger, including those described in the section entitled Risk Factors in this proxy statement.

The foregoing information and factors considered by the StemCells Board of directors are not intended to be exhaustive but are believed to include all of the material factors considered by the Board. In view of the wide variety of factors considered in connection with its evaluation of the Merger and the complexity of these matters, the Board did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Board may have given

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different weight to different factors. The StemCells Board of Directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, the StemCells management team and the legal and financial advisors of StemCells, and considered the factors overall to be favorable to, and to support, its determination.

Opinion of the Financial Advisor to the StemCells Board of Directors

On August 14, 2016, Carabiner rendered its oral opinion to the StemCells Board of Directors, which opinion was subsequently confirmed in writing on August 14, 2016, that, as of the date of the written opinion and subject to the various assumptions made, procedures followed, matters considered, and qualifications and limitations set forth therein, the consideration to be paid by StemCells in the Merger was fair, from a financial point of view, to the StemCells stockholders.

The full text of the Carabiner Opinion, which sets forth assumptions made, procedures followed, matters considered, and qualifications and limitations on the review undertaken by Carabiner in connection with such opinion, is attached as Annex B to this proxy statement and is incorporated by reference into this proxy statement. StemCells urges you to carefully read the Carabiner Opinion, together with the following description thereof, in its entirety. The following is a summary of the material terms of the Carabiner Opinion and is qualified in its entirety by reference to the full text of such opinion.

Carabiner provided the Carabiner Opinion for the information and assistance of the StemCells Board of Directors in connection with its consideration of the Merger. The Carabiner Opinion addressed only the fairness, from a financial point of view, to the StemCells stockholders of the consideration to be paid in the Merger. The Carabiner Opinion was intended for the use and benefit of the StemCells Board of Directors. The Carabiner Opinion is not a recommendation to any StemCells stockholder or Microbot shareholder or any other person as to how such person should vote with respect to the Merger or take any other action in connection with the Merger or otherwise.

In connection with rendering the opinion described above and performing its related financial analyses, Carabiner:

Reviewed a draft of the Merger Agreement dated August 4, 2016;

Reviewed draft term sheets and commitment papers for the Financing Commitments;

Reviewed certain financial information about StemCells that was publicly available;

Reviewed a draft of StemCells Quarterly Report on Form 10-Q, which was filed on August 15, 2016;

Reviewed certain financial information provided by StemCells and Microbot s respective management, including certain financial analyses, budgets, reports and other information;

Held discussions with various members of senior management of StemCells and Microbot concerning historical and current operations, financial conditions and prospects, including recent financial performance;

Reviewed the recent share trading price history of StemCells;

Reviewed the value of Microbot implied by the consideration and in its concurrent financing;

Reviewed the valuations of certain publicly traded companies that Carabiner viewed as comparable in certain respects to the business of Microbot;

Reviewed the financial terms of selected acquisition transactions involving companies in lines of business that Carabiner viewed as comparable in certain respects to the business of Microbot.

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In addition, Carabiner conducted such other quantitative reviews, analysis and inquiries relating to Microbot as it considered appropriate in rendering its opinion.

In arriving at its opinion, Carabiner assumed and relied upon, without independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting, and other information provided to, discussed with, or reviewed by Carabiner and upon the respective assurances of the management of StemCells and Microbot that each of them was not aware of any material relevant developments or matters related to StemCells or Microbot, as applicable, or that may affect the Merger, that has been omitted or that remains undisclosed to Carabiner. The Carabiner Opinion does not address any legal, regulatory, tax, or accounting matters, as to which Carabiner understood that StemCells had obtained such advice as it deemed necessary from other qualified professionals. Carabiner did not conduct any independent verification of any financial projections of StemCells, Microbot, or the combined company following the Merger and expressed no opinion as to any such financial projections or the assumptions on which they were based.

In arriving at its opinion, Carabiner made no analysis of, and expressed no opinion as to, the adequacy of the reserves of StemCells or Microbot and relied upon information supplied to Carabiner by StemCells and Microbot as to such adequacy. Carabiner did not make any independent evaluations or appraisals of the assets or liabilities (including any contingent derivatives or off-balance sheet assets or liabilities) of StemCells or any of its subsidiaries or Microbot, and Carabiner was not furnished with any such evaluations or appraisals.

Carabiner assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the Merger Agreement and any other agreement contemplated thereby are and will be true and correct as of the date or the dates made or deemed made, that each party will perform all of the covenants and agreements required to be performed by it under the Merger Agreement and any other agreement contemplated thereby, and that all conditions to the completion of the Merger will be satisfied and the Merger, and the other transactions contemplated by the Merger Agreement, will be completed in accordance with the terms of the Merger Agreement without waiver, modification, or amendment of any material term, condition, or agreement set forth therein. Carabiner also assumed that the final form of the Merger Agreement would be substantially similar to the last draft of the Merger Agreement reviewed by Carabiner prior to the delivery of the Carabiner Opinion. Carabiner further assumed that any governmental, regulatory, and other consents and approvals contemplated by the Merger Agreement would be obtained and that, in the course of obtaining any of those consents, no restrictions will be imposed or waivers made that would have an adverse effect on StemCells, Microbot, or any of the potential benefits of the Merger.

In arriving at its opinion, Carabiner did not consider any effects of any share of Microbot capital stock held by Microbot or owned by StemCells or any of its subsidiaries, which shall be canceled in the Merger. In addition, Carabiner did not give any consideration to any terms or conditions of any other agreement to be entered into in connection with the Merger Agreement, including the terms or conditions of the voting agreements described elsewhere in this proxy statement.

The Carabiner Opinion was based on economic, market, financial, and other conditions existing, and on the information made available to Carabiner, as of the date of such opinion, and Carabiner assumed no obligation to update, revise or reaffirm such opinion, unless otherwise mutually agreed to by the StemCells Board of Directors and Carabiner. Carabiner noted that subsequent developments may affect the conclusion reached in the Carabiner Opinion.

The Carabiner Opinion addressed solely the fairness, from a financial point of view, to the StemCells stockholders of the Exchange Ratio. The Carabiner Opinion does not in any way address other terms or conditions of the Merger or the Merger Agreement, including the financial or other terms of any other agreement contemplated by, or to be entered into in connection with, the Merger Agreement, nor does the Carabiner Opinion address, and Carabiner

expressed no opinion with respect to, the solvency of StemCells or Microbot or the impact thereon of the Merger. The Carabiner Opinion does not address the StemCells Board of Directors

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underlying business decision to proceed with the Merger, the relative merits of the Merger compared to other alternatives available to StemCells, or whether such alternatives exist. Carabiner did not express any opinion as to what the value of the shares of StemCells common stock will be when issued to holders of Microbot capital stock pursuant to the Merger or the prices or ranges of prices at which shares of StemCells common stock will trade at any time, including following the announcement or completion of the Merger. The Carabiner Opinion does not in any manner address (and Carabiner was not required to opine as to) the fairness of the amount or nature of, or any other aspects related to, compensation to be received by any officers, directors, or employees of any party to the Merger, or any class of such persons, relative to the Exchange Ratio or otherwise.

The following is a summary of the material financial analyses delivered by Carabiner to the StemCells Board of Directors in connection with rendering the Carabiner Opinion. The following summary, however, does not purport to be a complete description of the financial analyses performed by Carabiner. The order of the analyses described below does not represent the relative importance or weight given to those analyses by Carabiner. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of the corresponding summaries and are alone not a complete description of the financial analyses performed by Carabiner. Considering the data in the tables below without considering the corresponding full narrative descriptions of the financial analyses, including the methodologies and assumptions underlying such analyses, could create a misleading or incomplete view of the financial analyses performed by Carabiner. Other than the guidance provided by the StemCells Board of Directors and senior management to Carabiner set forth in this proxy statement, no instructions were given to or limitations imposed upon Carabiner by the StemCells Board of Directors or senior management with respect to the investigations made or procedures followed by it in rendering its opinion.

In furnishing its opinion, Carabiner did not attempt to combine the analyses described herein into one composite valuation range, nor did Carabiner assign any quantitative weight to any of the analyses or the other factors considered. Furthermore, in arriving at its opinion, Carabiner did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor in light of one another. Accordingly, Carabiner has stated that it believes that its analyses must be considered as a whole and that considering any portion of its analyses, without considering all of the analyses, could create a misleading or incomplete view of the process underlying its opinion or the conclusions to be drawn therefrom.

The results of the application by Carabiner of each of the valuation methodologies utilized in connection with its fairness opinion is summarized below.

Selected Comparable Company Analysis

In order to assess how the public market values shares of similar publicly traded companies and to provide a range of relative implied equity values per share of Microbot common shares by reference to these companies, which could then be used to calculate implied exchange ratio ranges, Carabiner reviewed and compared specific financial data relating to Microbot with selected companies that Carabiner deemed comparable to Microbot. These companies each operate in segments of the medical device industry, have annual revenues up to $50 million, and a market capitalization of between $1 million and $80 million.

The selected comparable companies with respect to Microbot were:

Athleon, Inc.

Cognetix, Inc.

InspireMD, Inc.

Lombard Medical, Inc.

Medigus Ltd.

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Sunshine Heart, Inc.

Viveve Medical, Inc.

Xtent, Inc.

Carabiner selected the comparable companies listed above because it considered their businesses and operating profiles to be reasonably similar to that of Microbot, as applicable.

Comparable Transaction Analysis

Carabiner reviewed the financial terms, to the extent publicly available, of acquisitions or reverse mergers in the United States during the past 24 months involving medical device companies that Carabiner deemed relevant, based on its professional experience. For each of the selected precedent transactions, Carabiner analyzed the revenues reported by the target company and compared these to the purchase price.

The table below summarizes the data points that Carabiner presented to the board of directors:

Target	Acquirer	Purchase Price	Reported Revenues
Unilens Vision Inc.	Valeant Pharmaceuticals International, Inc.	$28.5 million	$10 million
ViewRay, Inc.	N/A	$26.7 million	$8 million
Infraredx, Inc.	NIPRO Corporation	$80.0 million	$4 million
Creagh Gerard	Surmodics, Inc.	$32.0 million	$3.5 million
Interactive Motion Technologies, Inc.	Bionik Laboratories Corp.	$23.7 million	$2.0 million

Carabiner noted that the valuation data indicates that early stage revenue companies can achieve multiples of 3x to 10x of revenues in a merger or sale transaction but that publicly available market data for pre-revenue, development stage medical device companies is generally unavailable.

General Overview of Analyses; Other Considerations

The preparation of a financial opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Carabiner considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. The overall conclusions Carabiner reached are based on all the analyses and factors presented, taken as a whole, and also on application of Carabiner s own experience and judgment. Such conclusions may involve significant elements of subjective judgment and qualitative analysis. Carabiner therefore gave no opinion as to the value or merit, standing alone, of any one or more parts of the analyses. Furthermore, Carabiner believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of them, would create an incomplete view of the process underlying Carabiner s analysis and opinion.

In performing its analyses, Carabiner made numerous assumptions with respect to industry performance, general business, regulatory, and economic conditions, and other matters, all of which are beyond Carabiner s and many of

which are beyond the control of StemCells or Microbot. Any estimates used by Carabiner in its analysis are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

No single company or transaction used in the above analyses as a comparison is identical to StemCells, Microbot or the Merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather,

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the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading, or other values of the companies, businesses, or transactions analyzed. The analyses were prepared solely for purposes of Carabiner providing its opinion and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty.

The Carabiner Opinion was one of the many factors taken into consideration by the StemCells Board of Directors in making its determination to approve the Merger. See the section entitled The Merger Reasons for the Merger. Consequently, the analyses as described above should not be viewed as determinative of the opinion of the StemCells Board of Directors with respect to the Exchange Ratio or of whether the StemCells board of directors would have been willing to agree to a different exchange ratio. The Exchange Ratio was determined through arm s-length negotiations between StemCells and Microbot and was approved by the StemCells Board of Directors. Carabiner did not recommend any specific amount of consideration or specific exchange ratio to StemCells or the StemCells Board of Directors or suggest that any specific amount of consideration or exchange ratio constituted the only appropriate consideration or exchange ratio for the Merger.

Carabiner has consented to the use of the Carabiner Opinion in this proxy statement; however, Carabiner has not assumed any responsibility for the form or content of this proxy statement, other than the Carabiner Opinion itself.

The StemCells Board of Directors selected Carabiner because of Carabiner s reputation in the health care industry and experience in health care merger and acquisition transactions, including transactions similar to the Merger. Pursuant to an engagement letter agreement, dated as of July 19, 2016, Carabiner agreed to provide, an opinion as to the fairness, from a financial point of view, of the consideration to be paid or received in any such transaction. As compensation for Carabiner s financial advisory services, StemCells paid a monthly retainer of $15,000 and, upon delivery of the fairness opinion, a fee of $150,000. In addition, StemCells also agreed to reimburse Carabiner for its reasonable out of pocket expenses, not to exceed $10,000, including attorney s fees and expenses, and to indemnify Carabiner and its related parties against various liabilities in connection with Carabiner s engagement.

Carabiner is regularly engaged in performing financial analyses with respect to businesses and securities in connection with mergers and acquisitions, and for other purposes.

Interests of the StemCells Directors and Executive Officers in the Merger

General

In considering the recommendation of the Board of Directors of StemCells with respect to the approval of the Merger Agreement, the Merger, the transactions contemplated by the Merger Agreement, and the other matters to be acted upon by the StemCells stockholders at the special meeting, the StemCells stockholders should be aware that certain members of the Board of Directors and executive officers of StemCells have interests in the Merger that may be different from, or in addition to, the interests of the StemCells stockholders. These interests relate to or arise from, among other things:

- Upon completion of the Merger, certain current and former StemCells employees, including certain of its current and former named executive officers, may receive cash success fees, as described below under The Merger Golden Parachute Compensation;

- Certain indemnification obligations of Microbot following the Merger, as described under The Merger Agreement Indemnification of Directors and Officers ;

The Board of Directors of StemCells was aware of these potential conflicts of interest and considered them, among other matters, in reaching their respective decisions to approve the Merger Agreement and to recommend,

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as applicable, that the StemCells stockholders approve the proposals to be presented to the StemCells stockholders for consideration at the special meeting as contemplated by this proxy statement.

Golden Parachute Compensation

Overview

This section sets forth the information required by Item 402(t) of Regulation S-K regarding the compensation for each of StemCells named executive officers that is based on or otherwise relates to the Merger. This compensation is referred to as golden parachute compensation by the applicable SEC disclosure rules, and in this section StemCells uses such term to describe the Merger-related compensation payable to StemCells named executive officers.

Severance and Change of Control Arrangements with StemCells Named Executive Officers

Following the announcement that StemCells would begin an orderly wind down of operations, StemCells entered into a trust agreement on June 16, 2016 with David A. Bradlow, as trustee, in order to establish a third party trust for the benefit of StemCells employees and, in particular, to help ensure the availability of funds necessary to satisfy its future commitments to exiting employees and tax authorities. At the time, and following a renegotiation of all its existing severance obligations owed to employees, StemCells transferred $2.3 million to fund the trust. This amount represented StemCells best estimate of (i) severances expected to become payable to employees upon the termination of their employment, (ii) anticipated accrued paid time off expected to be due at the time of their termination of employment, (iii) certain anticipated future employee wages, (iv) certain anticipated tax obligations, (v) potential retention bonuses payable in October, and (vi) anticipated costs associated with the administration of the trust. In all cases, the severance amounts contributed into the beneficial trust were net of the agreed-upon negotiated discounts of more than 50% from each employee s original severance agreement with StemCells.

As part of this renegotiation of severances in June 2016, StemCells then current executive officers Dr. Ian Massey (its then-President and Chief Executive Officer), Mr. Greg Schiffman (its then-Chief Financial Officer), and Mr. Ken Stratton (its General Counsel and current interim President) each entered into a Severance Buy-Out, Compromise and Release agreement with the Company, each dated June 6, 2016, in which they amended their existing employment agreements to forfeit in excess of 50% of their severances otherwise payable in the event of their involuntary termination of employment other than for cause, whether following a change of control transaction or otherwise. In return, these severance amounts were deposited into the beneficial trust. In the case of Dr. Massey, StemCells contributed $219,808 into the trust to cover his severance payable and both employer and employee taxes owed of this payment. In the case of Mr. Schiffman, StemCells contributed $190,219 into the trust to cover his severance payable and both employer and employee taxes owed of this payment. In the case of Mr. Stratton, StemCells contributed $143,656 into the trust to cover his severance payable and both employer and employee taxes owed of this payment.

Also, in connection with the renegotiation of severances in June 2016, sixteen current and former employees of StemCells, including its three named executive officers, which we refer to collectively as the Close-out Team, entered into Cooperation and Consulting Agreements, also dated June 6, 2016, under which StemCells has agreed to pay the Close-out Team success payments generally equal to 15% of (i) the valuation ascribed to StemCells in a merger transaction such as the Merger and (ii) any proceeds received by the Company upon the successful disposition of certain Company assets in connection with the wind down of operations in return for their continued support of the business and its wind down activities even after the termination of their employment. The Company will divide any success fees in good faith either ratably based upon efforts made or in equal shares across all eligible members of the Close-out Team. Accordingly, upon completion of the Merger, certain of StemCells current and former named executive officers may receive the cash success fees included in the table below.

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On or about August 1, 2016, the trustee released both to the approximately 50 impacted employees, including StemCells current and former executive officers all of whom had been given provisionally an August 1, 2016 termination date, and to tax authorities approximately $2.1 million from the trust, in all cases pursuant to the terms of the trust agreement. The amount was part of the approximately $3,800,000 recorded as wind-down expense in our Condensed Consolidated Statement of Operations.

Aggregate Amounts of Potential Compensation

The table below summarizes potential golden parachute compensation that each named executive officer could be entitled to receive from StemCells if the Merger is completed, as discussed above. It is currently expected that none of the named executive officers will continue to be employed by the combined company following the closing of the Merger and, accordingly, will be entitled to receive the severance and benefits described above and below. Please note that the amounts indicated below are estimates based on multiple assumptions that may or may not actually occur, including assumptions described herein. Accordingly, the actual amounts, if any, to be received by such named executive officer may differ in material respects from the amounts set forth below.

For purposes of calculating such potential golden parachute compensation, StemCells has assumed that the Merger had occurred on September 1, 2016 and has further assumed that the named executive officers will incur a termination of employment on such date that would entitle them to the benefits set forth in the table below.

	Golden Parachute Compensation			
	Cash(1)	Equity	COBRA Benefits(2)	Total
Ian Massey	$ 216,667	$	$	$ 216,667
Gregory Schiffman	$ 187,500	$	$	$ 187,500
Ken Stratton	$ 141,667	$	$ 17,400	$ 159,067

(1) Cash compensation represents negotiated lump sum severance benefits for each of Messrs. Massey, Schiffman and Stratton plus the officer s expected portion of the payment estimated to be made to the Close-out Team.

(2) In connection with their separation from the Company effective August 15, 2016, each of Messrs. Massey and Schiffman are receiving COBRA benefits for one year following their separation. Mr. Stratton is the only named executive officer who is continuing as an employee of the Company. Accordingly, upon his separation as of the closing date of the Merger (the Closing Date), Mr. Stratton is expected to begin receiving COBRA benefits within one year of such date.

Indemnification and Insurance. For a description of the indemnification rights afforded to StemCells directors and officers under the Merger Agreement, see The Merger Agreement Indemnification of Directors and Officers.

Limitations of Liability and Indemnification of the StemCells and Microbot Officers and Directors

Pursuant to the Merger Agreement, upon the completion of the Merger, the parties agreed that all rights to indemnification or advancement of expenses now existing in favor of, and all limitations on the personal liability of each present and former director, officer, employee, fiduciary or agent of StemCells or any of its subsidiaries, as provided for in their respective organizational documents in effect as of the date of the Merger Agreement, will

continue to be honored and in full force and effect after the closing of the Merger.

The Merger Agreement also provides that StemCells will purchase a six-year tail policy under its existing directors and officers liability insurance policy, with an effective date as of the closing of the Merger.

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Merger Consideration

At the effective time of the Merger, by virtue of the Merger and without any action on the part of the holders of Microbot capital stock, each then-outstanding share of Microbot capital stock will be automatically converted into the right to receive a number of shares of StemCells common stock equal to the Exchange Ratio. The Exchange Ratio will be determined immediately prior to the completion of the Merger by dividing (i) the product of (a) three times (b) the total number of outstanding shares of StemCells common stock calculated on a fully diluted basis (in other words, inclusive of all shares of StemCells common stock issuable upon conversion of any securities convertible into or exercisable or exchangeable for shares of StemCells common stock) as of immediately prior to the completion of the Merger (but after giving effect to the reverse stock split described elsewhere in this proxy statement and the issuance of the shares to certain Microbot advisors with respect to the Merger representing, in the aggregate, 20% of StemCells post-closing capitalization, as provided for in the Merger Agreement), by (ii) the total number of outstanding common shares of Microbot calculated on a fully diluted basis (in other words, inclusive of all shares of Microbot capital stock issuable upon conversion of any securities convertible into or exercisable or exchangeable for shares of Microbot common stock) as of immediately prior to the completion of the Merger. As a result, former shareholders of Microbot are expected to receive shares of StemCells common stock representing an aggregate of approximately 75% of the outstanding shares of common stock of the combined company calculated on a fully diluted basis.

The Exchange Ratio

The Exchange Ratio is based on three times the number of shares of StemCells common stock divided by the number of common shares of Microbot outstanding, in each case calculated on a fully diluted basis immediately prior to the effective time of the Merger, and will not be determined until that time. Accordingly, any changes in the number of shares of outstanding capital stock of either StemCells or Microbot, as a result of option grants, option expirations, or issuance of new share capital, prior to the effective time of the Merger would result in a corresponding change to the Exchange Ratio.

For illustrative purposes only, based on the number of shares of StemCells common stock and Microbot common shares outstanding, in each case calculated on a fully diluted basis, as of August 15, 2016, the date of the Merger Agreement, the Exchange Ratio (without giving effect to the proposed reverse stock split described elsewhere in this proxy statement) would have been approximately 26.6 shares of StemCells common stock for each share of Microbot capital stock. Based on the number of shares of StemCells common stock and Microbot capital stock outstanding, in each case calculated on a fully diluted basis, as of September [ ], 2016, the last practicable date before the printing of this proxy statement, the Exchange Ratio (without giving effect to the proposed reverse stock split described elsewhere in this proxy statement) would have been [ ] shares of StemCells common stock for each share of Microbot capital stock.

No adjustments to the Exchange Ratio will be made based upon changes in the price of the StemCells common stock or the value of Microbot equity prior to the completion of the Merger. Changes in stock price or value may result from a variety of factors, including, among others, general market and economic conditions, changes in StemCells or Microbot s respective businesses, operations, and prospects, the market assessment of the likelihood that the Merger will be completed as anticipated or at all, and regulatory considerations. Many of these factors are beyond StemCells or Microbot s control.

As a result of any such changes in the price of the StemCells common stock, the aggregate market value of the shares of StemCells common stock that the Microbot shareholders will be entitled to receive at the effective time of the Merger could vary significantly from the value of such shares on the date of this proxy statement, the date of the StemCells special meeting, the date of the Microbot extraordinary general meeting, or the date on which the Microbot

shareholders actually receive their shares of StemCells common stock.

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Fractional Shares

No fractional shares of StemCells common stock will be issued to Microbot shareholders in connection with the Merger. Instead, the number of whole shares to be issued to any holder of Company Stock shall be rounded down to the nearest whole number of shares of StemCells common stock (after aggregating all fractional share will receive in connection with the Merger, see the section entitled The Merger Agreement Merger Consideration beginning on page 72).

Effective Time of the Merger

The Merger Agreement requires the parties to complete the Merger after all of the conditions to the completion of the Merger contained in the Merger Agreement are satisfied or waived, including, among others, the adoption of the Merger Agreement by the shareholders of Microbot and stockholders of StemCells and the approval by the StemCells stockholders of the issuance of StemCells common stock and the amendment to StemCells amended and restated certificate of incorporation effecting the proposed reverse stock split, among other things. The Merger will become effective upon the issuance by the Israeli Companies Registrar, after the closing of the Merger, of the certificate of merger. The Israeli Companies Registrar will issue such certificate after Microbot and the Merger Sub file with the Israeli Companies Registrar all the necessary documents required by the ICL, including, *inter alia*, a merger proposal and a notice stating that all the preconditions to the merger were completed. Neither StemCells nor Microbot can predict the exact timing of the completion of the Merger, but according to the ICL the Israeli Companies Registrar will not issue the certificate of merger unless at least fifty (50) days have elapsed since the filing of the merger proposal with the Companies Registrar and at least thirty (30) days have elapsed since the approval of the merger by the shareholders of each of Microbot and Merger Sub.

Regulatory Approvals

As of the date of this proxy statement, neither StemCells nor Microbot is required to make filings or to obtain approvals or clearances from any antitrust regulatory authorities in the United States or other countries to complete the Merger. In Israel, because Microbot received certain grants from the OCS, Microbot must obtain the approval of the transactions contemplated by the Merger Agreement, including the Merger, of the OCS. As a pre-condition for the OCS approval, StemCells would need to sign an undertaking (following a standard form prescribed by the OCS) to comply, and cause Microbot to comply, following the Merger, with the OCS laws and regulations in respect of the grants Microbot received. In the United States, StemCells must comply with applicable federal and state securities laws and the rules and regulations of the NASDAQ Capital Market in connection with the issuance of shares of StemCells common stock in the Merger and the resulting change in control of StemCells and the filing of this proxy statement with the SEC.

Tax Treatment of the Merger

StemCells, Merger Sub and Microbot intend the Merger, together with the issuance of shares of StemCells common stock to Microbot shareholders, to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code. Each of StemCells, Merger Sub and Microbot will use its reasonable best efforts to cause the Merger, together with the issuance of shares of StemCells common stock to Microbot shareholders, to qualify as a reorganization within the meaning of Section 368(a) of the Code, and not take any action or cause any action to be taken which would or could reasonably be expected to prevent or impede the Merger from qualifying as a reorganization under Section 368(a) of the Code.

NASDAQ Stock Market Listing

StemCells common stock currently is listed on the NASDAQ Capital Market under the symbol STEM. StemCells has agreed to use its reasonable best efforts to cause the shares of StemCells common stock to be

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approved, at or prior to the completion of the Merger, for listing (subject only to notice of issuance) on the NASDAQ Capital Market at and following the completion of the Merger, and the listing of the shares of StemCells common stock issuable pursuant to the Merger Agreement is a condition to Microbot s and StemCells obligation to complete the Merger.

As of the date of the mailing of this proxy statement, StemCells has filed an initial listing application for the NASDAQ Capital Market in connection with the Merger pursuant to NASDAQ reverse merger rules. If such application is approved, StemCells anticipates that its common stock will continue to be listed on the NASDAQ Capital Market following the completion of the Merger under the trading symbol . It is expected that following the Merger, the trading symbol of the combined company will be changed. Microbot has requested the ticker symbol MBOT for this purpose.

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THE MERGER AGREEMENT

The following is a summary of the material provisions of the Merger Agreement but does not purport to describe all of the terms of the Merger Agreement. The following summary is qualified in its entirety by reference to the complete text of the Merger Agreement, a copy of which is attached as Annex A to this proxy statement and is incorporated by reference into this proxy statement. This summary may not contain all of the information about the Merger Agreement that is important to you. You should refer to the full text of the Merger Agreement for details of the transaction and the terms and conditions of the Merger Agreement.

Additionally, the representations, warranties and covenants described in this section and contained in the Merger Agreement have been made only for the purpose of the Merger Agreement and, as such, are intended solely for the benefit of StemCells, Merger Sub and Microbot. In many cases, these representations, warranties and covenants are subject to limitations agreed upon by the parties and are qualified by certain disclosures exchanged by the parties in connection with the execution of the Merger Agreement. Furthermore, many of the representations and warranties in the Merger Agreement are the result of a negotiated allocation of contractual risk among the parties and, taken in isolation, do not necessarily reflect facts about StemCells or Microbot, their respective subsidiaries and affiliates or any other party. Likewise, any references to materiality contained in the representations and warranties may not correspond to concepts of materiality applicable to investors or stockholders. Finally, information concerning the subject matter of the representations and warranties may have changed since the date of the Merger Agreement or may change in the future and these changes may not be fully reflected in the public disclosures made by StemCells and/or Microbot. ***As a result of the foregoing, you are strongly encouraged not to rely on the representations, warranties and covenants contained in the Merger Agreement, or any descriptions thereof, as accurate characterizations of the state of facts or condition of StemCells, Microbot, or any other party. You are likewise cautioned that you are not a third-party beneficiary under the Merger Agreement and do not have any direct rights or remedies pursuant to the Merger Agreement.***

Terms of the Merger

The Merger Agreement provides that, subject to the terms and conditions of the Merger Agreement and in accordance with Delaware law with respect to the Merger Agreement and with the laws of the State of Israel with respect to the Merger, at the completion of the Merger, Merger Sub, a wholly owned subsidiary of StemCells, will merge with and into Microbot. Upon completion of the Merger, Microbot will continue as a wholly owned subsidiary of StemCells (the Surviving Corporation).

Completion of the Merger

The closing of the Merger will take place no later than the second business day after the satisfaction or waiver of the conditions to the completion of the Merger contained in the Merger Agreement, other than the conditions which by their terms can be satisfied only as of the closing of the Merger or on such other day as StemCells, Microbot and Merger Sub may mutually agree. For a more complete discussion of the conditions to the completion of the Merger, see the section entitled Conditions to the Completion of the Merger beginning on page 84.

At the closing, the parties will file with the Israeli Companies Registrar (the Companies Registrar) a notice informing the Companies Registrar of the Merger and requires that, promptly after notice that the closing has occurred, the Companies Registrar issue a certificate evidencing the completion of the Merger (the Certificate of Merger) in accordance with the Israeli Companies Law and the regulations promulgated thereunder (the ICL). The Merger shall become effective upon issuance by the Companies Registrar, after the closing of the Merger, of the Certificate of Merger.

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Articles of Association; Directors and Officers

Upon completion of the Merger, the articles of association of the Surviving Corporation will be amended and restated in such form and substance as shall have been reasonably agreed to by StemCells and Microbot, until thereafter amended in accordance with the terms thereof and applicable law.

The directors of Microbot will be the directors of the Surviving Corporation immediately following the completion of the Merger and each of them will hold office until his or her successor is duly elected or appointed and qualified or until his or her earlier death, resignation or removal.

The officers of Microbot will be the officers of the Surviving Corporation immediately following the completion of the Merger, and each of them will hold office until his or her successor is duly appointed and qualified or until his or her earlier death, resignation or removal.

Merger Consideration

Upon completion of the Merger, each share of then-outstanding capital stock of Microbot (other than shares held by Microbot, StemCells or any of StemCells subsidiaries, which will be cancelled at the completion of the Merger) will be automatically converted into the right to receive the number of shares of StemCells common stock equal to the Exchange Ratio (as defined below) (the Merger Consideration).

No fractional shares of StemCells common stock will be issued in connection with the Merger. The number of whole shares to be issued to any holder of Microbot capital stock shall be rounded down to the nearest whole number of shares of StemCells common stock (after aggregating all fractional shares of StemCells common stock issuable to such holder).

The Merger Agreement defines the Exchange Ratio as the number of shares of StemCells common stock equal to the quotient obtained by dividing (i) the product obtained by multiplying (a) three times (b) the total number of outstanding shares of StemCells common stock on a fully diluted, as converted basis (in other words, inclusive of all shares of common stock issuable upon conversion of any securities convertible into or exercisable or exchangeable for StemCells common stock), as of immediately prior to the completion of the Merger (but after giving effect to the Reverse Stock Split Proposal and including the shares of StemCells common stock issued to certain consultants with respect to the Merger representing, in the aggregate, 20% of StemCells post-closing capitalization) by (ii) the total number of outstanding shares of Microbot common stock on a fully diluted, as converted basis (in other words, inclusive of all shares of common stock issuable upon conversion of any securities convertible into or exercisable or exchangeable for Microbot capital stock) as of immediately prior to the completion of the Merger. The Merger Agreement provides that the Exchange Ratio will be appropriately adjusted if, prior to the completion of the Merger, the outstanding shares of common stock of Microbot or StemCells are changed as a result of any reclassification, recapitalization, stock split, merger, combination, exchange, readjustment or similar transaction, or any stock dividend thereon, to eliminate the effect of such event on the Exchange Ratio.

Assumption of Microbot Stock Options and Warrants

Stock Options

The Merger Agreement provides that, upon completion of the Merger, each Microbot stock option that is outstanding and unexercised immediately prior to the completion of the Merger, whether or not vested, will be converted into an option to purchase StemCells common stock, and StemCells will assume such stock option in accordance with the

terms of the Microbot 2015 Stock Option Plan, which is referred to as the Microbot Equity Plan, and the terms of the contract evidencing such Microbot stock option. Following the completion of the Merger, each Microbot option may be exercised solely for shares of StemCells common stock. The number of shares of StemCells common stock subject to each assumed Microbot stock option will be determined by

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multiplying the number of shares of Microbot capital stock subject to the stock option immediately prior to the completion of the Merger by the Exchange Ratio and rounding down to the nearest whole number of shares of StemCells common stock. The per share exercise price for shares of StemCells common stock issuable upon exercise of each assumed Microbot stock option will be determined by dividing the per share exercise price for Microbot common stock subject to the stock option immediately prior to the completion of the Merger by the Exchange Ratio and rounding up to the nearest whole cent. After adjusting the assumed stock options to reflect the application of the Exchange Ratio, all other terms of the assumed stock options, including the term, exercisability and vesting schedule, will remain unchanged, except that the board of directors of the combined company or a committee thereof will succeed to the authority and responsibility of the Microbot board of directors or any applicable committee thereof with respect to such stock options.

In addition, at the completion of the Merger, StemCells may assume the Company Equity Plan. If StemCells assumes the Company Equity Plan, then under such Company Equity Plan, StemCells shall be entitled to grant stock awards, to the extent permissible under applicable law, using the share reserves of the Company Equity Plan, subject to certain customary adjustments.

Warrants

The Merger Agreement provides that, upon completion of the Merger, each Microbot warrant that is outstanding and unexercised immediately prior to the completion of the Merger will be converted into a warrant to purchase StemCells common stock and StemCells will assume such warrant in accordance with the terms of the applicable Microbot warrant and the terms of the contract evidencing such Microbot warrant. Following the completion of the Merger, each Microbot warrant may be exercised solely for shares of StemCells common stock. The number of shares of StemCells common stock subject to each assumed Microbot warrant will be determined by multiplying the number of shares of Microbot capital stock subject to the warrant immediately prior to the completion of the Merger by the Exchange Ratio and rounding down to the nearest whole number of shares of StemCells common stock. The per share exercise price for shares of StemCells common stock issuable upon exercise of each assumed Microbot warrant will be determined by dividing the per share exercise price of such warrant immediately prior to the completion of the Merger by the Exchange Ratio and rounding up to the nearest whole cent. After adjusting the assumed Microbot warrants to reflect the application of the Exchange Ratio, all other terms of the assumed warrants, including the term, exercisability and vesting schedule, will remain unchanged.

Exchange of Microbot Stock Certificates

At or prior to the completion of the Merger, StemCells will enter into an agreement with a bank or trust company selected by StemCells reasonably acceptable to Microbot who will act as the exchange agent for payment of the Merger Consideration to the holders of Microbot s ordinary shares in exchange for certificates representing the existing ordinary shares of Microbot. At or before the completion of the Merger, StemCells will supply the exchange agent with the Merger Consideration.

The Merger Agreement provides that, promptly following the completion of the Merger, StemCells or the exchange agent will mail to each Microbot shareholder of record a letter of transmittal and instructions for use in surrendering all certificates of Microbot stock for the applicable portion of the Merger Consideration. The Merger Agreement provides that upon surrender to the exchange agent of Microbot stock certificates, a properly completed letter of transmittal and other documents reasonably requested by the exchange agent, a holder of shares of Microbot stock will be entitled to receive the applicable portion of the Merger Consideration. StemCells, the Surviving Corporation, and the exchange agent will be entitled to deduct and withhold from the Merger Consideration such amounts as may be required to be deducted or withheld under the Code or any other applicable law.

If any shares of Microbot stock are unvested or subject to a repurchase option, risk of forfeiture or other similar condition immediately prior to the completion of the Merger, then the Merger Consideration Shares

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issued with respect thereto will also be unvested or subject to a repurchase option, risk or forfeiture or other similar condition, as applicable.

If any shareholder has lost a certificate representing Microbot capital stock, or if any such certificate has been stolen or destroyed, such shareholder will, as a condition to receiving the applicable portion of Merger Consideration for the shares represented by such certificate, be required to make an affidavit of the loss, theft or destruction and, if reasonably required by StemCells, post a bond in a reasonable amount as indemnity against any claim that may be made against StemCells with respect to such certificate.

From and after the completion of the Merger, unless it is properly surrendered or transferred, each Microbot stock certificate will represent only the right to receive an applicable portion of the Merger Consideration. In addition, the transfer books of Microbot will close at the completion of the Merger and no shares of Microbot stock will thereafter be registered or transferred on the transfer books of Microbot.

Stock certificates should not be surrendered for exchange by Microbot shareholders prior to the completion of the Merger and should be sent only pursuant to instructions set forth in the letters of transmittal which the Merger Agreement provides will be mailed to Microbot shareholders promptly following the completion of the Merger. In all cases, the certificates representing shares of StemCells common stock will be delivered only in accordance with the procedures set forth in the letter of transmittal.

After the first anniversary of the date upon which the Merger is completed, any Merger Consideration (or dividends or distributions thereon) remaining in the exchange fund established by StemCells with the exchange agent shall be delivered to StemCells or StemCells designee, and any former shareholders of Microbot who have not complied with the applicable provisions for payment summarized above will be entitled to receive payment of the applicable portion of Merger Consideration only from StemCells. None of the Surviving Corporation, StemCells, the exchange agent or any other party to the Merger Agreement will be liable to any former shareholders of Microbot for any amounts delivered to a public official pursuant to any applicable abandoned property, escheat or similar laws.

Representations and Warranties

The Merger Agreement contains customary representations and warranties made by Microbot to StemCells and Merger Sub made as of the date of the Merger Agreement and as of the Closing Date, and generally reciprocal representations and warranties made by StemCells and Merger Sub to Microbot. Specifically, the representations and warranties of each of StemCells and Microbot in the Merger Agreement (many of which are qualified by concepts of knowledge, materiality and/or dollar thresholds and are further modified and limited by confidential disclosure schedules exchanged by StemCells and Microbot as may or may not be specifically indicated in the text of the Merger Agreement) relate to the following subject matters, among other things:

- organization, good standing and qualification to do business as currently conducted;
- no violation of the constitutive documents of the applicable company;
- corporate power and authority to enter into the Merger Agreement and to complete the transactions contemplated by the Merger Agreement;

valid authorization to enter into and execution of the Merger Agreement;

the required consents and approvals of governmental entities and third parties in connection with the transactions contemplated by the Merger Agreement;

the declaration of advisability of the Merger Agreement and the Merger by each party s board of directors, the approval of the Merger Agreement and the Merger by each party s board of directors and, subject to certain provisions relating to the fiduciary duties of each party s board of directors, the recommendation made by each party s board of directors to its respective stockholders;

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capitalization, including valid authorization and issuance of outstanding capital stock;

compliance with certain laws;

financial statements;

title to property;

the absence of undisclosed liabilities;

the conduct of each party s business, and the absence of certain changes or events since June 30, 2016;

the capitalization of StemCells subsidiaries;

litigation, investigations, proceedings and the absence of orders or judgments from governmental entities;

insurance policies and claims against such policies;

matters relating to material contracts, including the absence of certain defaults under or breaches or violations of material contracts and that the contracts identified as material contracts are valid, binding and enforceable obligations;

employment and labor matters;

intellectual property matters;

tax matters;

in the case of StemCells, matters relating to its employee benefit plans;

regulatory matters;

environmental matters;

the absence of misstatements or omissions of material facts in this proxy statement with respect to StemCells, and information provided for inclusion therein, with respect to Microbot;

the absence of undisclosed brokers fees; and

the inapplicability of anti-takeover statutes to the Merger and the other transactions contemplated by the Merger Agreement.

The Merger Agreement contains additional representations and warranties of StemCells regarding, among other things, the approval by the StemCells board of directors of the amendment to StemCells certificate of incorporation, StemCells SEC filings, disclosure controls and procedures and internal controls over financial reporting, StemCells compliance with the listing requirements of the NASDAQ Capital Market, and the due authorization, valid issuance, and lack of resale restrictions with respect to the shares of StemCells common stock to be issued as Merger Consideration (other than as may be imposed pursuant to rules 144 or 145 under the Securities Act).

Material Adverse Effect

Several of the representations, warranties, covenants and closing conditions contained in the Merger Agreement refer to the concept of Company Material Adverse Effect or Parent Material Adverse Effect .

Company Material Adverse Effect

For purposes of the Merger Agreement, a Company Material Adverse Effect means any change, circumstance, condition, development, effect, event, occurrence, result or state of facts that, individually or when taken together with any other such change, circumstance, condition, development, effect, event, occurrence,

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result or state of facts, has or would reasonably be expected to have a material adverse effect on the business, financial condition, assets, liabilities or results of operations of Microbot or prevent the ability of Microbot to consummate the transactions contemplated by the Merger Agreement, when viewed on a long-term or short-term basis; except none of the following shall be taken into account in determining whether there has been a Company Material Adverse Effect:

changes in general economic or political conditions or the securities market in general (whether as a result of acts of terrorism, war (whether or not declared), armed conflicts or otherwise) to the extent they do not disproportionately affect Microbot;

changes in or affecting the industries in which Microbot operates to the extent they do not disproportionately affect Microbot in any material respect;

changes, effects or circumstances resulting from the announcement or pendency of the Merger Agreement or the consummation of the transactions contemplated by or compliance with the terms of the Merger Agreement;

any specific action taken at the written request of StemCells or Merger Sub or expressly required by the Merger Agreement; and

continued losses from operations or decreases in cash balances of Microbot.

Parent Material Adverse Effect

For purposes of the Merger Agreement, a Parent Material Adverse Effect means any change, circumstance, condition, development, effect, event, occurrence, result or state of facts that, individually or when taken together with any other such change, circumstance, condition, development, effect, event, occurrence, result or state of facts, has or would reasonably be expected to have a material adverse effect on the business, financial condition, assets, liabilities or results of operations of StemCells and Merger Sub or prevent or materially delay the ability of StemCells and Merger Sub to consummate the transactions contemplated by the Merger Agreement, when viewed on a long-term or short-term basis; except none of the following shall be taken into account in determining whether there has been a Parent Material Adverse Effect: changes in general economic or political conditions or the securities market in general (whether as a result of acts of terrorism, war (whether or not declared), armed conflicts or otherwise) to the extent they do not disproportionately affect StemCells and its subsidiaries, taken as a whole;

changes in general economic or political conditions or the securities market in general (whether as a result of acts of terrorism, war (whether or not declared), armed conflicts or otherwise) to the extent they do not disproportionately affect StemCells and its subsidiaries, taken as a whole;

changes in or affecting the industries in which StemCells operates to the extent they do not disproportionately affect StemCells and its subsidiaries, taken as a whole, in any material respect;

changes, effects or circumstances resulting from the announcement or pendency of the Merger Agreement or the consummation of the transactions contemplated by or compliance with the terms of the Merger Agreement;

any specific action taken at the written request of Microbot or expressly required by the Merger Agreement;

continued losses from operations or decreases in cash balances of StemCells or its subsidiaries or on a consolidated basis among StemCells and its subsidiaries; and

any further reductions, either voluntary or involuntary, in StemCells personnel.

Furthermore, no change, circumstance, condition, development, effect, event, occurrence, result or state of facts relating to StemCells intellectual property, equipment or leasehold improvements shall be taken into account in determining whether there has been a Parent Material Adverse Effect.

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Certain Covenants of the Parties

Affirmative Covenants

Each of StemCells and Microbot has undertaken certain covenants in the Merger Agreement relating to the conduct of its business between the date of the Merger Agreement and the earlier of the completion of the Merger or the earlier termination of the Merger Agreement. In general, except as contemplated or required by the Merger Agreement (or disclosed to the other party pursuant to the terms of the merger agreement), without the prior written consent of the other party, each of StemCells and Microbot has agreed to, and StemCells has agreed to cause its subsidiaries to:

in the case of Microbot, conduct its business in the ordinary course;

in the case of Microbot, use reasonable best efforts to preserve intact its business, keep available the services of officers and employees and maintain existing business relations with licensors, licensees, suppliers, distributors, consultants, customers and other parties, except, with respect to Microbot and its subsidiaries, to the extent that such termination is in the ordinary course of business;

not take any action that would reasonably be expected to adversely affect its ability to complete the Merger;

in the case of StemCells, timely file all documents required to be filed with the SEC under applicable law in a timely manner and in compliance with applicable law;

in the case of StemCells, maintain compliance with the applicable listing requirements of the NASDAQ Capital Market;

provide the other party and its representatives with reasonable access during normal business hours to its offices, properties, personnel, books and records and furnish the other party and its representatives with financial and operating data and other information, as reasonably requested, , including reports to Microbot and its designated representatives regarding the use of StemCells cash funds prior to the Closing Date;

in the case of StemCells, prepare and file this proxy statement with the SEC. In connection with the foregoing, each party shall promptly notify the other party of receipt of all comments from the SEC with respect to this proxy statement and any request by the SEC for any amendment or supplement hereto or for additional information and shall promptly provide the other party with copies of all correspondence between such party and/or any of its representatives and the SEC with respect to this proxy statement;

as promptly as practicable following the date of the Merger Agreement, use its reasonable best efforts to obtain and maintain in connection with the transactions contemplated by the Merger Agreement, including the Merger, all approvals, consents, registrations, permits, authorizations and other confirmations of all

government authorities which, if not obtained, would result in a Parent Material Adverse Effect or Company Material adverse Effect, as applicable, or would result in the failure to satisfy the closing conditions described in the Merger Agreement;

cooperate and coordinate with the other party in the making of any filings or submissions that are required to be made under any applicable law or requested to be made by any governmental authority, and supply the other party or its representatives with any material information that may be required or requested by a government authority in such filings or submissions;

use reasonable best efforts to offer to take, or cause to be taken, all actions and do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by the Merger Agreement, including the Merger, including by taking all such actions and doing all such things necessary to resolve any such objections, if any, as any government authority or person may assert under any applicable laws to avoid or eliminate each and every impediment under any applicable law that may be asserted by any government authority so as to enable the transaction

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contemplated by the Merger Agreement, including the Merger, to be consummated as soon as possible. In furtherance of the foregoing, in the case of Microbot, as promptly as practicable following the date of the Merger Agreement taking all actions and provide all requisite documents and notifications relating to the Merger Agreement and the transactions contemplated thereby, including the Merger, as required to obtain approval for the consummation of the transactions contemplated by the Merger Agreement, including the Merger, from the Office of the Chief Scientist at the Israeli Ministry of Economy;

before issuing any press release or otherwise making any public statement with respect to any of the transactions contemplated by the Merger Agreement, including the Merger, consult with the other party as to its form and substance, and agree not to issue any such press release or general communication o employees or make any public statement without obtaining the other party s written consent, except advices by outside counsel that it is required under applicable law; in the case of StemCells, use reasonable best efforts to initiate and process the liquidation or transfer the assets of, pay or satisfy all obligations and other liabilities or, and dissolve, Stem Cells Sciences Holdings Limited and Stem Cell Sciences (UK) Limited;

provide the other party with prompt notice of certain events, including the occurrence or nonoccurrence of any event that would likely cause such party to be unable to fulfill certain conditions required to be fulfilled by such party prior to the completion of Merger, the receipt of a notice from a third party alleging that the consent of such third party is required in connection with the transactions contemplated by the Merger Agreement, including the Merger, or the existence of any facts or circumstances that would reasonably be expected to result in a Company Material Adverse Effect or Parent Material Adverse Effect, as applicable;

in the case of StemCells, use reasonable best efforts to cause StemCells common stock to be approved, at or prior to the completion of the Merger, for listing on the NASDAQ Capital Market at and after the completion of the Merger, including paying any required fees and submitting any listing application and listing agreement, if any, required by the NASDAQ Capital Market at least 60 days prior to the completion of the Merger, and to change the trading symbol of StemCells to the symbol chose by Microbot, effective at, or as soon as practicable following the completion of the Merger;

in the case of StemCells, use best efforts to do all things necessary or advisable to continue the listing of StemCells common stock on the NASDAQ Capital Market, and shall promptly provide Microbot with true, correct and complete copies of any and all correspondences with and to the NASDAQ Capital Market, and provide a response to the NASDAQ Capital Market only after providing Microbot with reasonable opportunity to provide advice and input in respect of such response;

in the case of StemCells, give Microbot the opportunity to participate, and if Microbot so elects, shall cooperate with respect to, the defense or settlement of any stockholder litigation against StemCells and/or its directors or executive officers relate to the Merger, the Merger Agreement or the transactions contemplated by the Merger Agreement and StemCells shall not settle or offer to settle any such litigation without Microbot s written consent, which consent will not be unreasonably withheld, conditioned or delayed;

in the case of StemCells, immediately prior to the completion of the Merger, and subject to obtaining the requisite stockholder approval of the StemCells Merger Proposals, file its charter amendment with the Delaware Secretary of State to effect the Reverse Stock Split Proposal and the Authorized Shares Increase Proposal;

in the case of StemCells, use reasonably best efforts to enter into agreements or other contracts by no later than August 18, 2016 with certain institutional holders of StemCells outstanding and unexercised warrants providing for the surrender or amendment of such warrants;

in the case of Microbot, deliver to each holder of Microbot capital stock or securities convertible into, exchangeable for, or representing the right to subscribe for, purchase or otherwise receive any shares of

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Microbot capital stock or any other Microbot equity securities, a form of accredited investor questionnaire, in reliance of which, StemCells and Microbot shall take such action as reasonably necessary to ensure that the issuance of shares of StemCells common stock in the Merger shall validly qualify for an exemption from the registration and prospectus delivery requirements of the Securities Act and the equivalent state blue-sky laws;

in the case of Microbot, conduct one or more private capital raises of not less than $4.0 million prior to Closing (collectively, the Company Private Placement);

in the case of StemCells, use its reasonable best efforts to obtain duly executed and delivered waiver and release agreements, in form and substance reasonably acceptable to Microbot, with the employees of StemCells and its subsidiaries;

in the case of Microbot, revise and update its unaudited financial statements so that they are prepared in accordance with GAAP; and

in the case of StemCells, issue to certain consultants with respect to the Merger, a number of shares of StemCells common stock (or other securities as agreed to in writing by such consultants and the parties to the Merger Agreement) which in the aggregate shall equal 20% of StemCells post-closing capitalization as of the Closing Date (on a fully diluted basis).

In addition, in the case of StemCells, StemCells has agreed to prepare and deliver a schedule setting forth, in reasonable detail, the Net Cash of StemCells as of 10 days prior to the anticipated Closing and a good faith estimate of the Net Cash to be held by Stem Cells as of the Closing, which shall be reviewed by Microbot with access to be provided by StemCells to its books and records, books of account, accountant s work paper and personnel and accountants. Within 5 business days after the delivery of the Net Cash schedule, Microbot will have the right to dispute any part of the Net Cash schedule by delivering a written request to StemCells setting forth, in reasonable detail, any item in the Net Cash schedule Microbot believes is not correct. A notification by StemCells of no objection or failure to deliver a notification will be a deemed acceptance that the Net Cash schedule has been finally determined for the purposes of the Merger Agreement and StemCells will not be required to determine Net Cash again prior to Closing except under certain circumstances. If Microbot disputes the Net Cash schedule, representatives of StemCells and Microbot shall promptly meet and attempt to resolve the disputed item(s) in good faith, which agreed upon amount will be deemed to have been finally determined for the purposes of the Merger Agreement. If the representatives of StemCells and Microbot are unable to negotiate an agreed-upon determination within 3 business days, then Microbot may pursue any available remedy under the Merger Agreement, including asserting that the closing conditions have not been satisfied or asserting that it may terminate the Merger Agreement.

For the purposes of the Merger Agreement, Net Cash of StemCells means, as of any particular time, on a consolidated basis (x) StemCells and its subsidiaries cash and cash equivalents, short term investments, and restricted cash, plus (y) accounts receivable as specifically contemplated by the line item other receivables in StemCells unaudited balance sheet for the fiscal period ended June 30, 2016 and filed with the SEC, but only to the extent of cash collections thereon through the completion of the Merger, minus (z) the aggregate of the following obligations and liabilities of Parent and Parent Subsidiaries, to the extent such obligations and liabilities are probable and can be reasonably estimated (including those cash settled liabilities and obligations that would be reflected on a balance sheet prepared in accordance with GAAP), calculated without duplication: (i) All current liabilities (other than non-cash current

liabilities) and long term liabilities (other than non-cash long term liabilities), including but not limited to any litigation costs, accounts payable and severance payments; (ii) All indebtedness for borrowed money or in respect of capitalized leases or the purchase of assets (including all principal, accrued interest thereon (and if such indebtedness is not prepayable, all remaining interest to be paid or accrued through maturity thereof), and any other amounts payable to the holders of such indebtedness as a result of or in connection with, the consummation of the transactions); (iii) Any and all contractual cash obligations, including but not limited to operating lease payments, capital lease equipment and loan payables. Notwithstanding the foregoing, the calculation of the obligations and liabilities in calculating Net Cash herein

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shall exclude any obligations or liabilities of StemCells to the Investor or any of its affiliates or assignees; provided that such amount shall not exceed $4.4 million; and (iv) any litigation costs, expenses, settlements and judgments (whether actual or projected).

Negative Covenants

Prior to the completion of the Merger or other earlier termination of the Merger Agreement, each of Microbot and StemCells have agreed, with respect to itself and its subsidiaries, not to (unless consented to in writing by the other party), among other things (subject to, in some cases, exceptions or qualifications specified in the Merger Agreement or set forth in the confidential disclosure schedules exchanged by Microbot and StemCells):

enter into any material contract, agreement or commitment or terminate or amend in any material respect, or waive any material right under, any material contract other than in the ordinary course of business or, with respect to Microbot, with prior written notice to StemCells;

grant any severance or termination pay to any officer or director except payments in amounts consistent with policies and past practice or pursuant to written agreements or policies existing on the date of the Merger Agreement and previously disclosed to the other party, or adopt any new severance plan except, with respect to Microbot, with the prior written notice to StemCells or as required by applicable Israeli law;

declare or pay any dividends or make any other distributions in respect of their capital stock or split, combine or reclassify any capital stock, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock other than, with respect to Microbot, in the ordinary course of business, with prior written notice to StemCells or with respect to the Company Private Placement;

repurchase or otherwise acquire any shares of its capital stock except pursuant to rights of repurchase under its stock plans;

materially amend any certificate of incorporation, bylaws, certificate of formation or limited liability company agreement other than with respect to the Company Private Placement;

sell, lease, license, encumber or otherwise dispose of any material properties or assets other than in the ordinary course of business;

incur any indebtedness for borrowed money or guarantee any such indebtedness, or issue or sell any debt securities or rights to acquire debt securities, other than, with respect to Microbot, in the ordinary course of business or with respect to the Company Private Placement, or, with respect to StemCells, pursuant to a secured note and corresponding security agreement entered into by StemCells in connection with the Merger Agreement;

enter into any keep well or other contract to maintain any financial statement condition of any other person other than a wholly owned subsidiary;

with respect to StemCells, adopt or amend any employee benefit, employee equity purchase or employee option plan;

with respect to StemCells, enter into any employment contract or hire any employee;

with respect to StemCells, pay any special bonus to any director or employee;

with respect to StemCells, increase the salaries or wage rates of officers or employees, except increases to non-officer employees in the ordinary course of business or pursuant to existing contracts;

pay or settle any pending or threatened litigation, claims or liability other than with respect to amounts owed to vendors and suppliers or settlements in the ordinary course of business, settlements not involving more than $100,000 individually or $250,000 in the aggregate and with respect to taxes;

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authorize or propose any plan of liquidation or dissolution, any acquisition of a material amount of assets, a disposition of a material amount of assets, any partnership, association or joint venture, or other than with respect to the Company Private Placement, any material change in capitalization;

with respect to StemCells, purchase any insurance policy other than the tail policy in favor of StemCells current directors and officers, fail to renew any insurance policy or permit any insurance policy to be cancelled, terminated or materially altered;

maintain books and records in a manner other than in the ordinary course of business consistent with past practices;

enter into any hedging, option, derivative or other similar transaction or any foreign exchange position except in the ordinary course of business and, with respect to StemCells, consistent with past practices;

institute any change in accounting methods, principles or practices other than as required by GAAP or for purposes of compliance and the SEC and, with respect to Microbot, with the NASDAQ Capital Market;

make any material election or change in tax accounting method, enter into any tax closing agreement, settle any material tax claim or assessment, consent to any material extension or waiver of the limitation period applicable to any material tax claim or assessment or amend any tax return or enter into any tax sharing agreement;

issue or sell any securities other than: the Company Private Placement; with respect to Microbot, the grant of stock options to employees; the issuance of any shares of Microbot capital stock upon the exercise of stock options or existing warrants; the issuance of any shares of StemCells common stock upon the exercise of stock options or existing StemCells securities; with respect to Microbot, upon the conversion of existing convertible promissory notes; or as expressly contemplated by the Merger Agreement;

amend the terms of any securities, or with respect to Microbot, file a registration statement with respect to an initial public offering of Microbot securities;

enter into any agreement that would limit either company, StemCells subsidiaries or the Surviving Corporation from engaging in any line of business, competing with any person or selling any product or service;

with respect to StemCells, make any capital expenditures in excess of $50,000 in the aggregate or any expenditures not contemplated in the StemCells budget;

take any action that would prevent the Merger from qualifying as a reorganization under Section 368(a) of the Code; or

agree or commit to do any of the foregoing.

No Solicitation

Subject to certain exceptions described below, prior to the completion of the Merger or the earlier termination of the Merger Agreement, each of StemCells and Microbot has agreed that it will not, and it will not authorize or permit its subsidiaries, if applicable, and their respective directors, officers, employees, agents and other representatives to, directly or indirectly:

solicit, initiate, or knowingly encourage, facilitate, induce, or take any other action that would reasonably be expected to lead to the making, submission, or announcement of any proposal or inquiry that constitutes, or is reasonably likely to lead to, an Acquisition Proposal (as defined below);

enter into, continue, or participate in any discussions or any negotiations regarding any Acquisition Proposal or otherwise take any action to knowingly facilitate or induce any effort or attempt to make or implement an Acquisition Proposal;

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approve, endorse, enter into, or recommend an Acquisition Proposal or any letter of intent or contract contemplating an Acquisition Proposal or requiring the abandonment or termination of obligations under the Merger Agreement; or

agree, resolve or commit to do any of the foregoing.

In addition, each of StemCells and Microbot has agreed to and will cause its subsidiaries, if applicable, and their respective directors, officers, employees, agents and other representatives to cease and terminate all discussions or negotiations with any person previously conducted with respect to any Acquisition Proposal.

Prior to obtaining the requisite stockholder approval of the StemCells Merger Proposals or the Microbot Merger Proposal, as applicable, the restrictions set forth above do not prohibit either StemCells or Microbot, as applicable, from furnishing information regarding itself or participating in discussions with a person making an unsolicited written Acquisition Proposal if (i) it received an Acquisition Proposal that the board of directors of the company determines in good faith, after consultation with legal advisors, and in the case of StemCells, financial advisors, constitutes or would reasonably be expected to constitute a Superior Proposal (as defined below), (ii) such Acquisition Proposal did not result from a violation of the restrictions set forth above, (iii) its board of directors determines in good faith, after consultation with outside legal counsel, that failure to take action would be inconsistent with its fiduciary duties under applicable law, (iv) with respect to furnishing information regarding itself, it enters into a confidentiality agreement with such person, and (v) with respect to furnishing information regarding itself, all information provided to such person has been previously or concurrently provided to the other company. In addition, StemCells or Microbot, as applicable, must provide the other company with written notice within 48 hours of receipt of any proposal, offer, or inquiry or discussions or negotiations sought to be initiated or continued with such person regarding an Acquisition Proposal, which notice indicates the terms of such proposal and includes a copy of any written materials received relating thereto and thereafter promptly keeps the other company informed of all material developments regarding such proposal, offer or inquiry.

An Acquisition Proposal means, with respect to StemCells or Microbot, as the case may be, any offer, proposal or indication of interest (other than the transactions contemplated by the Merger Agreement) related to any transaction or series of transactions involving:

any merger, consolidation, issuance or acquisition of securities or other similar transaction (i) that would result in a third party directly or indirectly owning 15% or more of any class of voting securities of the subject company or (ii) in which the subject company issues securities representing 15% or more of any class of voting securities of the subject company;

any sale, lease, exchange, transfer, acquisition or disposition of any assets that constitute or account for (i) 15% or more of the consolidated net revenues, consolidated net income or consolidated book value of the subject company or (ii) 15% of more of the fair market value of the assets of the subject company; or

any liquidation or dissolution of the subject company.

A Superior Proposal means, with respect to StemCells or Microbot, as the case may be, a bona fide written Acquisition Proposal (provided that, for purposes of this definition, references to 15% in the definition of Acquisition Proposal shall be deemed to be references to 50%) which the board of directors of the subject company determines in

good faith (after consultation with its financial advisor) (i) to be reasonably likely to be consummated if accepted and (ii) to be more favorable to the subject company s stockholders from a financial point of view than the Merger, in each case, taking into account at the time of determination all relevant circumstances, including the various legal, financial and regulatory aspects of the proposal, all the terms and conditions of such proposal and the Merger Agreement, any changes to the terms of the Merger Agreement offered by the other company in response to such Acquisition Proposal and the ability of the person making such Acquisition Proposal to consummate the transactions contemplated by such Acquisition Proposal (based upon, among other things, expectation of obtaining required approvals).

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Board Recommendations

Under the Merger Agreement, subject to the exceptions set forth below, (i) the Microbot board of directors has agreed to recommend that Microbot shareholders vote in favor of the Microbot Merger Proposal (the Microbot Board Recommendation) and (ii) the StemCells board of directors has agreed to recommend that StemCells stockholders vote in favor of the StemCells Merger Proposals (the StemCells Board Recommendation). Subject to the exceptions described below, the Merger Agreement provides that:

- neither the Microbot board of directors nor the StemCells board of directors will (i) fail to make the Microbot Board Recommendation or the StemCells Board Recommendation, as applicable, (ii) withdraw, amend or modify in a manner adverse to the other company, the Microbot Board Recommendation or the StemCells Board Recommendation, as applicable, or (iii) recommend, adopt, endorse or approve an Acquisition Proposal; and

- neither the Microbot board of directors nor the StemCells board of directors will resolve, agree or publicly propose to take any of the actions described above.

Each of the foregoing actions is referred to as a Recommendation Change .

The restrictions set forth above will not prohibit the StemCells board of directors or the Microbot board of directors, as the case may be, from effecting a Recommendation Change if Microbot or StemCells, as applicable, has (i) received an Acquisition Proposal, and the board of directors of such company has determined in good faith after consulting with legal counsel (x) that a failure to take action would be inconsistent with its duties under applicable law and (y) the Acquisition Proposal constitutes a Superior Proposal (with respect to StemCells, after consulting with its financial advisor) or (ii) in response to an Intervening Event (as defined below), if the board of directors of such company has determined in good faith, after consulting with legal counsel, that a failure to take action would be inconsistent with its duties under applicable law, and all of the following conditions are met:

- Microbot or StemCells, as applicable, has provided written notice to the other company that it intends to make a Recommendation Change, which written notice shall contain a description of the events, facts and circumstances giving rise to the proposed action or material terms and conditions of the Superior Proposal, including a copy of the definitive acquisition agreement, as applicable;

- the other company does not make, within three business days after receipt of the notice described above, a proposal which in the good faith judgment of the board of directors of the subject company, after consulting with its legal counsel and, with respect to StemCells, its financial advisor, cause such events, facts and circumstances to no longer be a basis for a Recommendation Change or such Acquisition Proposal to no longer constitute a Superior Proposal; and

- Microbot or StemCells, as applicable, provides a new notice and the other company receives a new three day business period, in each case, as described above, with respect to any material change in the events, facts and circumstances or material term of the Superior Proposal or any material change in the principal rationale

stated by the subject company board of directors for the Recommendation Change.

An Intervening Event means, with respect to StemCells or Microbot, as the case may be, a material event or circumstance that occurs after the date of the Merger Agreement and was not previously known or reasonably foreseeable by the board of directors of StemCells or Microbot, as the case may be, provided that the receipt, existence or terms of an Acquisition Proposal or any matter relating thereto or consequence thereof does not constitute an Intervening Event.

Special Meetings of Stockholders

Each of StemCells and Microbot has agreed to take all action necessary to hold a meeting of its stockholders for the purpose of obtaining the required stockholder approval of the StemCells Merger Proposals and the Microbot Merger Proposal, respectively, as promptly as practicable, including mailing this proxy statement to

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StemCells stockholders as promptly as reasonably practicable following clearance of the proxy statement by the SEC. Each party s respective obligation to hold its stockholder meeting will not be affected by any Recommendation Change by its board of directors (unless such Recommendation Change leads to a termination of the Merger Agreement).

To the extent reasonably necessary to comply with applicable listing criteria of the NASDAQ Capital Market or otherwise to permit the issuance of the Merger Consideration, StemCells further agrees to submit to its stockholders at the special meeting a proposal to approve a reverse stock split of StemCells common stock.

Indemnification of Directors and Officers

The Merger Agreement provides that StemCells will continue to indemnify and hold harmless each present and former director or officer of StemCells or any of its subsidiaries, with respect to acts or omissions occurring or alleged to have occurred before or at the completion of the Merger, to the fullest extent permitted under applicable law and in StemCells certificate of incorporation and bylaws.

The Merger Agreement provides that StemCells will not enter into any contract relating to the indemnification of any present and former director or officer of StemCells or any of its subsidiaries, or any other person, without the prior written consent of Microbot, which may be withheld in its reasonable discretion.

The Merger Agreement provides that, prior to the completion of the Merger, StemCells will purchase and maintain for a period of six years following the completion of the Merger, a directors and officers liability tail insurance policy covering the present and former directors and officers of StemCells for events occurring at or prior to the completion of the Merger. Such policy must contain terms no less favorable than the policies maintained by StemCells or Microbot, as applicable, as of the date of the Merger Agreement.

Governance Matters Upon Completion of the Merger

StemCells has agreed to take all actions necessary to ensure that, immediately following the completion of the Merger, the StemCells board of directors shall resign and the replacement board of directors shall consist of members designated by Microbot, to hold office from and after the completion of the Merger until the earliest of the appointment of his or her respective successor, his or her resignation, or his or her proper removal.

StemCells has agreed to take all actions necessary to ensure that, immediately following the completion of the Merger, StemCells remaining employees and officers resign and the replacement executive officers shall consist of members designated by Microbot, to hold office from and after the completion of the Merger until the earliest of the appointment of his or her respective successor, his or her resignation, or his or her proper removal.

Conditions to the Completion of the Merger

The obligations of each of Microbot and StemCells to complete the Merger and the other transactions contemplated by the Merger Agreement are subject to the satisfaction or waiver in writing of the following conditions:

- StemCells stockholders shall have approved the Name Change Proposal, the Share Authorization Proposal, the Reverse Stock Split Proposal and the Share Issuance Proposal at the StemCells Special meeting (or at any adjournment or postponement thereof);

Microbot s shareholders shall have approved the execution and delivery by Microbot of the Merger Agreement, the performance by Microbot of its covenants and obligations thereunder and the consummation by Microbot of the transactions contemplated thereby;

No law or order shall have been enacted, entered, promulgated or enforced by any governmental authority, which remains in effect and which prohibits the consummation of the Merger or otherwise makes the Merger illegal;

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StemCells common stock shall be listed on NASDAQ and shall have been approved for listing (subject only to notice of issuance) under NASDAQ under a symbol chosen by Microbot prior to the completion of the Merger;

StemCells shall be registered under Section 12(b) of the Exchange Act of 1934, as amended; and

Microbot shall have obtained the approval of transactions contemplated by the Merger Agreement, including the Merger, of the Office of Chief Scientist at the Israeli Ministry of Economy.

The obligations of Microbot to complete the Merger and the other transactions contemplated by the Merger Agreement are subject to the satisfaction or waiver in writing of the following conditions:

The representations and warranties of StemCells and Merger Sub (other than those representations and warranties specifically set forth in clause (ii) below) must be true and correct at and as of the date of the Merger Agreement and as of the completion of the Merger as if made at and as of the completion of the Merger (or, in the case of those representations and warranties that are made as of a particular date or period, as of such date or period), except where the failure of such representations and warranties to be true and correct (disregarding all qualifications or limitations as to materially , Parent Material Adverse Effect and words of similar import set forth therein) has not had, individually or in the aggregate, a Parent Material Adverse Effect; and (ii) the representations and warranties of StemCells and Merger Sub relating to capitalization must be true and correct in all respects, except for de minimis inaccuracies, as of the date of the Merger Agreement and as of the completion of the Merger as if made at and as of the completion of the Merger; and (iii) the representations and warranties of StemCells and Merger Sub relating to its organization, authority, no Parent Material Adverse Effect, finders and brokers and takeover statutes shall be true and correct in all respects as of the date of the Merger Agreement and as of the completion of the Merger as if made at and as of the completion of the Merger.

StemCells and Merger Sub shall have performed and complied in all material respects with all agreements and obligations required by the Merger Agreement to be performed or complied with by them on or prior to the Closing Date, other than agreements made with respect to StemCells warrants;

There shall not have occurred and be continuing any Parent Material Adverse Effect between the date of the Merger Agreement and the Closing Date.

The Net Cash of StemCells at the closing of the Merger shall not be less than zero.

StemCells shall have furnished to Microbot a certificate executed by its principal executive officer to evidence compliance with the foregoing conditions.

The obligations of StemCells and Merger Sub to complete the Merger and the other transactions contemplated by the Merger Agreement are subject to the satisfaction or waiver in writing of the following conditions:

The representations and warranties of Microbot (other than those representations and warranties specifically set forth in clause (ii) below) must be true and correct at and as of the date of the Merger Agreement and as of the completion of the Merger as if made at and as of the completion of the Merger (or, in the case of those representations and warranties that are made as of a particular date or period, as of such date or period), except where the failure of such representations and warranties to be true and correct (disregarding all qualifications or limitations as to materially , Company Material Adverse Effect and words of similar import set forth therein) has not had, individually or in the aggregate, a Company Material Adverse Effect; and (ii) the representations and warranties of Microbot relating to capitalization must be true and correct in all respects, except for de minimis inaccuracies, as of the date of the Merger Agreement and as of the completion of the Merger as if made at and as of the completion of the Merger; and (iii) the representations and warranties of Microbot relating to its organization, authority, no Company Material Adverse Effect, finders and brokers and takeover statutes shall be true

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and correct in all respects as of the date of the Merger Agreement and as of the completion of the Merger as if made at and as of the completion of the Merger.

Microbot shall have performed and complied in all material respects with all agreements and obligations required by the Merger Agreement to be performed or complied with by them on or prior to the Closing Date;

There shall not have occurred and be continuing any Company Material Adverse Effect between the date of the Merger Agreement and the Closing Date.

The Microbot Private Placement shall have been consummated;

Microbot shall have furnished to StemCells and Merger Sub a certificate executed by its principal executive officer to evidence compliance with the foregoing conditions.

Termination of the Merger Agreement

The Merger Agreement provides that, at any time prior to the completion of the Merger, either before or after the requisite stockholder approvals of the StemCells Merger Proposals and the Microbot Merger Proposal have been obtained (except as set forth below), the Merger Agreement may be terminated:

by mutual written consent of StemCells and Microbot;

by either StemCells or Microbot if the Merger has not been completed by November 15, 2016. A party may not terminate the Merger Agreement for this reason if the failure to complete the Merger is caused by that party s action or failure to act and such action or failure to act constitutes a material breach of the Merger Agreement;

by either StemCells or Microbot if any applicable law irrevocably prohibits or makes the Merger illegal or if a final and nonappealable order has been entered by a governmental authority permanently prohibiting the completion of the Merger, provided that the party seeking to terminate the Merger Agreement has performed its obligations under the Merger Agreement to resist, resolve or remove such applicable law or order;

by either StemCells or Microbot if the Microbot special meeting (including any adjournments or postponements thereof) has been held and the Microbot shareholders have voted not to approve the Microbot Merger Proposal, provided that a party may not terminate the Merger Agreement for this reason if the failure to obtain approval of the Microbot Merger Proposal is caused by that party s breach of a material obligation to be performed prior to the completion of the Merger;

by either StemCells or Microbot if the StemCells special meeting (including any adjournments or postponements thereof) has been held and the StemCells stockholders have voted not to approve the StemCells Merger Proposals, not to effect the reverse stock split, if applicable, or not to issue share of StemCells common stock pursuant to the Merger Agreement, provided that a party may not terminate the Merger Agreement for this reason if the failure to so obtain approval is caused by that party s breach of a material obligation to be performed prior to the completion of the Merger;

subject to certain cure provisions, by either StemCells or Microbot if the other company s representations and warranties are inaccurate such that the conditions to the completion of the Merger relating to the accuracy of the other company s representations and warranties would not be satisfied (see the section entitled Conditions to the Completion of the Merger beginning on page 84), provided that a party may not terminate the Merger Agreement for this reason if it has materially breached the Merger Agreement and remains in breach as of the date of such proposed termination;

subject to certain cure provisions, by either StemCells or Microbot if the other company has not performed in all material respects such other company s obligations and agreements set forth in the Merger Agreement such that the conditions to the completion of the Merger relating to the performance

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of the other Company s obligations and agreements would not be satisfied (see the section entitled Conditions to the Completion of the Merger beginning on page 84), provided that a party may not terminate the Merger Agreement for this reason if it has materially breached the Merger Agreement and remains in breach as of the date of such proposed termination;

by Microbot, if at any time prior to the approval of the StemCells Merger Proposals, the board of directors of StemCells has (i) effected any Recommendation Change, (ii) failed to publicly reaffirm the StemCells Board Recommendation within two business days of Microbot s request or (iii) failed to recommend against or taken a neutral position with respect to a tender or exchange offer related to an Acquisition Proposal;

by Microbot if StemCells, after receiving an Acquisition Proposal, materially violated or breached its no solicitation obligations (see the section entitled No Solicitation beginning on page 81);

by Microbot prior to August 19, 2016 if holders of at least 80 percent of certain outstanding warrants of StemCells have not agreed to amend or surrender such warrants, provided that Microbot may not terminate the Merger Agreement for this reason if it has materially breached the Merger Agreement and remains in breach as of the date of such proposed termination;

by StemCells, if at any time prior to the approval of the Microbot Merger Proposals, the board of directors of Microbot has (i) effected any Recommendation Change, (ii) failed to publicly reaffirm the Microbot Board Recommendation within two business days of StemCells request or (iii) failed to recommend against or taken a neutral position with respect to a tender or exchange offer related to an Acquisition Proposal;

by StemCells if Microbot, after receiving an Acquisition Proposal, materially violated or breached its no solicitation obligations (see the section entitled No Solicitation beginning on page 81); or

automatically without action of either of parties if the Investor has not funded the initial $2.0 million pursuant to a debt commitment within one day of the date of the Merger Agreement.

Termination Fees and Expenses

The Merger Agreement provides that all fees and expenses incurred in connection with the Merger Agreement and the transactions contemplated by the Merger Agreement will be paid by the party incurring such expenses whether or not the Merger is consummated.

Amendments

The Merger Agreement may be amended only by the written agreement of StemCells, Merger Sub and Microbot at any time prior to the completion of the Merger. However, following the approval of the StemCells Merger Proposals or the Microbot Merger Proposal, any amendment that pursuant to applicable law requires further stockholder approval may not be made without such stockholder approval.

Governing Law

The Merger Agreement is governed by the laws of the State of Delaware and, with respect to the Merger, the laws of the State of Israel.

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AGREEMENTS RELATED TO THE MERGER

Microbot Private Placement

Pursuant to the Merger Agreement, Microbot is obligated to raise no less than $4.0 million in one or more private placements prior to the closing of the Merger (the Microbot Private Placement), which amount would provide the combined company with at least 18 months of cash to fund operations post-closing, assuming a minimum StemCells net cash amount of not less than $0 at closing.

On August 15, 2016, Microbot and Alpha Capital Anstalt (the Investor), entered into an agreement pursuant to which, among other things, the Investor agreed to fund the Microbot Private Placement, which obligation shall be reduced dollar-for-dollar by any third party investors investing in the Microbot Private Placement.

As of the date of this proxy statement, Microbot has not sold any securities in the Microbot Private Placement.

Voting Agreements

In connection with the execution of the Merger Agreement, certain stockholders of StemCells also entered into a voting agreement with Microbot under which each such stockholder has agreed to vote in favor of the proposals that relate to the Merger and against any alternative acquisition proposal, agreement or transaction. The voting agreement grants Microbot irrevocable proxies to vote any shares of StemCells common stock over which such stockholder has voting power in favor of each of the proposals described elsewhere in this proxy statement and against any alternative acquisition proposal, agreement or transaction.

Certain shareholders of Microbot owning approximately 68% of the voting power of Microbot on an as-converted basis also entered into voting agreements with StemCells under which such shareholders agreed to vote in favor of the Merger and against any alternative acquisition proposal, agreement or transaction. The shareholders of Microbot will vote on whether to approve the Merger on September 14, 2016.

Each director, executive officer and stockholder, as applicable, upon executing his, her, or its voting agreement has made representations and warranties to StemCells and Microbot, as applicable, regarding ownership and unencumbered title to the shares thereto, such stockholder s power and authority to execute the voting agreement, and due execution and enforceability of the voting agreement. Unless otherwise waived, all of these voting agreements prohibit the sale, assignment, transfer or other disposition by the stockholder of his, her, or its respective shares of StemCells or Microbot stock, as applicable, or the entrance into an agreement or commitment to do any of the foregoing, except for transfers by will or by operation of law, in which case the voting agreement shall bind the transferee.

The voting agreements will terminate at the earlier of the effective time of the Merger, termination of the Merger Agreement in accordance with its terms or upon mutual written consent of such stockholder, StemCells and Microbot

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MANAGEMENT FOLLOWING THE MERGER

Executive Officers and Directors

Termination of Current Executive Officers and Directors of StemCells

Effective as of immediately following the effective time of the Merger, StemCells remaining employees and officers, including its remaining executive officers and directors, are required by the Merger Agreement to resign and the officers and directors of Microbot immediately prior to the completion of the Merger shall be the officers of the combined company immediately after the effective time of the Merger.

Executive Officers and Directors of the Combined Company Following the Merger

The combined company s board of directors is expected to initially consist of at least six (6) members, consisting of Harel Gadot, Yoav Waizer, Moshe Shoham, Yoseph Bornstein, Solomon Mayer, and at least one additional member who shall be designated by Microbot prior to closing and who meets the SEC and NASDAQ Stock Market independence requirements. The staggered structure of the current StemCells board of directors will remain in place for the combined company following the completion of the merger.

The following table lists the names and ages as of September 1, 2016 and positions of the individuals who are expected to serve as executive officers and directors of the combined company upon completion of the merger:

Name	Age	Position(s)
Executive Officers		
Harel Gadot	44	Chief Executive Officer and Chairman of the Board of Directors
Non-Employee Directors		
Yoav Waizer	51	Director
Moshe Shoham	63	Director
Yoseph Bornstein	57	Director
Solomon Mayer	63	Director

Executive Officers

Harel Gadot, is a co-founder of Microbot and has served as Chief Executive Officer since Microbot was founded in November 2010. He has been the Chairman of Microbot s board of directors since July 2014. He also serves as the Chairman of XACT Robotics Ltd. since August 2013 and MEDX Xelerator LP since July 2016. From December 2007 to April 2010 Mr. Gadot was a Worldwide Group Marketing Director at Ethicon Inc., a Johnson and Johnson Company, where he was responsible for the global strategic marketing of the company. Mr. Gadot also held management positions, as well as leading regional strategic position for Europe, Middle-East and Africa, as well as In Israel, while at Johnson and Johnson. Mr. Gadot served as director for ConTIPI Ltd. from August 2010 until November 2013 when ConTIPI Ltd. was acquired by Kimberly-Clark Corporation. Mr. Gadot holds a B.Sc.in Business from Siena College, Loudonville NY, and an M.B.A. from the University of Manchester, UK. We believe that Mr. Gadot is qualified to serve as Chairman of the board and as Chief Executive Officer of the combined company due to his extensive experience in strategic marketing in the medical device industry.

Microbot expects to hire a Chief Financial Officer prior to closing pending the consummation of the merger. Microbot also expects to hire a Chief Technology Officer either shortly before or after the consummation of the merger, and a

Chief Operating Officer shortly after the consummation of the merger.

Non-Employee Directors

Yoav Waizer, has served as a member of the Board of Directors of Microbot since May 2015. Mr. Waizer is a Partner and Chief Executive Officer of Medica Venture Partners, a healthcare dedicated venture investing out

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of Israel in innovative capital-starved early stage and special situation companies, since November 2005. Prior to his Tenure at Medica, Mr. Waizer served as CFO & COO at Cedar Fund, a venture capital fund focuses on investing in Israel-related high-tech companies in the telecom, networking, Internet-infrastructure and enterprise software areas and prior to that Mr. Waizer was the CFO of Star Ventures Israel, the Israeli fund of Star Ventures, a $1 billion venture capital fund investing in all stages of development within the Telecom, Enterprise S/W, Wireless and Life Sciences sectors. Mr. Waizer is currently a director of InterCure Ltd., a company focused on investing in medical technology companies that is traded on the Tel Aviv Stock exchange. Mr. Waizer holds Master of Business Administration in Information Systems and B.Sc. in Accounting and Statistics, both from the Tel-Aviv University. We believe that Mr. Waizer is qualified to serve as a member of the combined company s board due to his extensive investment experience and extensive knowledge of the life sciences industry.

Moshe Shoham, D.Sc., is a co-founder of Microbot and has served as Chairman of Microbot s Scientific Advisor Board and as a Director since Microbot was founded in November 2010. Prof. Shoham has been the head of the robotics laboratory at the Technion-Israel Institute of Technology, Department of Mechanical Engineering since October 1990 and has been a professor in the Department of Mechanical Engineering at the Technion-Israel Institute of Technology since October 1989. Prior to that, Dr. Shoham was the director of the robotic laboratory in the Department of Mechanical Engineering at Columbia University from September 1986 to September 1989. Dr. Shoham has served as a foreign member of the National Academy of Engineering in the United States since October 2014. In addition, Dr. Shoham founded Mazor Surgical Technologies Ltd., a publically traded medical device company in the field of surgical robotics, and has been its Chief Technology Officer since January 2003. Dr. Shoham earned B.Sc. in 1978, a M.Sc. in 1982 and a D.Sc. in 1986 from the Technion-Israel Institute of Technology. We believe that Dr. Shoham is qualified to serve as Chairman of Microbot s Scientific Advisory Board and as a member of the combined company s board due to his extensive knowledge of our technologies and the surgical robotics industry, and his extensive business and academic experience in the field of surgical robotics.

Yoseph Bornstein, is a co-founder of Microbot and has been a member of the Board of Directors since Microbot was founded in November 2010. Mr. Bornstein founded Shizim Ltd., a life science holding group in October 2000 and has served as its president since then. Mr. Bornstein is the Chairman of GCP Clinical Studies Ltd., a provider of clinical research services and educational programs in Israel since January 2002. He is the Chairman of Biotis Ltd., a service company for the bio-pharmaceutical industry, since June 2000. In addition, he is the Chairman of Dolphin Medical Ltd., a service company for the medical device industry, since April 2012 and the Chairman of ASIS Enterprises B.B.G. Ltd., a business August 2007. In October 1992, Mr. Bornstein founded Pharmateam Ltd., an Israeli company that specialized in representing international pharmaceutical companies which was sold in 2000. Mr. Bornstein is also a founder of a number of other privately held life-science companies. Mr. Bornstein served as the Biotechnology Committee Chairman of the Unites States-Israel Science & Technology Commission (the USISTF) from September 2002 to February 2005 as well as a consultant for USISTF from September 2002 to February 2005. He is also the founder of ILSI-Israel Life Science Industry Organization and ITTN-Israel Tech Transfer Organization. We believe that Mr. Bornstein is qualified to serve as a member of the combined company s board due to his extensive experience in, and knowledge of, the life sciences industry and international business.

Solomon Mayer, has served as a member of the Board of Directors of Microbot since June 2014, as the designated director of Alpha Capital. Mr. Mayer has served as the President and Chief Executive Officer of Mooney Aviation Company since June 1999. He also serves as President of Chailife Line, an organization devoted to help restore normalcy to family life and better enable them to withstand the crises and challenges of serious pediatric illness. In addition, Mr. Mayer serves as a Director of the Laniado Hospital, International Medical Search Co. of New York, Blastgard International, Inc. and Ironwood Gold Corp. We believe that Mr. Mayer is qualified to serve as a member of the board of the combined company due to his investment experience and extensive management experience as an executive and director of a variety of companies.

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Board of Directors of the Combined Company Following the Merger

Microbot expects that the combined company s board of directors will initially consist of at least five members, consisting of Harel Gadot, Yoav Waizer, Moshe Shoham, Yoseph Bornstein and Solomon Mayer. Furthermore, Microbot may designate at least one additional member prior to closing if Microbot determines that it needs to further meet the SEC and NASDAQ Stock Market independence requirements. The staggered structure of the current StemCells board of directors will remain in place for the combined company following the completion of the merger.

It is anticipated that the directors will be appointed to the three staggered director classes of the combined company board of directors prior to the completion of the Merger.

Microbot has notified us that there are no family relationships among any of the current Microbot directors and executive officers, and there are no family relationships among any of the proposed combined company directors and officers. There are no arrangements or understandings with another person under which the directors and executive officers of the combined company was or is to be selected as a director or executive officer. Additionally, no director or executive officer of the combined company is involved in legal proceedings which require disclosure under Item 401 of Regulation S-K.

The StemCells board of directors currently has, and following the completion of the Merger will continue to have, the following committees: an Audit Committee, a compensation and stock option committee (the Compensation Committee) and a corporate governance and nominating committee (the Corporate Governance Committee). Following the completion of the Merger, the combined company does not expect to have a Strategic Transaction Committee.

Audit Committee

The Audit Committee acts pursuant to a written charter. The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities. The committee does this primarily by reviewing the company s financial reports and other financial information as well as the company s systems of internal controls regarding finance, accounting, legal compliance, and ethics that management and the board of directors have established. The committee also assesses the company s auditing, accounting and financial processes more generally. The Audit Committee recommends to the board of directors the appointment of a firm of independent auditors to audit the financial statements of the company and meets with such personnel of the company to review the scope and the results of the annual audit, the amount of audit fees, the company s internal accounting controls, the company s financial statements contained in this proxy statement, and other related matters.

In connection with the closing of the Merger, the combined company s board of directors is expected to select members of the Audit Committee, including the Audit Committee financial expert. To qualify as independent to serve on the combined company s audit committee, the NASDAQ Stock Market listing standards and the applicable rules of the SEC require that a director does not accept any consulting, advisory, or other compensatory fee from the combined company, other than for services as a director, or be an affiliated person of the combined company. StemCells and Microbot believe that, following the completion of the Merger, the functioning of the combined company s Audit Committee will comply with the applicable requirements of the rules and regulations of the NASDAQ Stock Market.

Compensation Committee

The Compensation Committee acts pursuant to a written charter. The Compensation Committee makes recommendations to the board of directors and management concerning salaries in general, determines executive

compensation and approves incentive compensation for employees and consultants.

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In connection with the closing of the Merger, the combined company s board of directors is expected to select members of the Compensation Committee. To qualify as independent to serve on the combined company s Compensation Committee, the NASDAQ Stock Market listing standards and the applicable rules of the SEC require that a director does not accept any consulting, advisory, or other compensatory fee from the combined company, other than for services as a director, or be an affiliated person of the combined company and, if so, whether such affiliation would impair the director s judgment as a member of the Compensation Committee. StemCells and Microbot believe that, following the completion of the Merger, the functioning of the combined company s Compensation Committee will comply with the applicable requirements of the rules and regulations of the NASDAQ Stock Market and of the SEC.

Corporate Governance Committee

The Corporate Governance Committee acts pursuant to a written charter. The Corporate Governance Committee oversees nominations to the board of directors and considers the experience, ability and character of potential nominees to serve as directors, as well as particular skills or knowledge that may be desirable in light of the company s position at any time. The Corporate Governance Committee also develops and recommends to the board of directors a set of corporate governance principles applicable to the company.

In connection with the closing of the Merger, the combined company s board of directors is expected to select members of the Corporate Governance Committee. StemCells and Microbot believe that, following the completion of the Merger, the composition of the Corporate Governance Committee will comply with the applicable requirements of the rules and regulations of the NASDAQ Stock Market.

Director Independence

NASDAQ s listing standards and StemCells Corporate Governance Guidelines require that StemCells board of directors consist of a majority of independent directors, as determined under the applicable NASDAQ listing standards.

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RELATED PARTY TRANSACTIONS OF DIRECTORS AND EXECUTIVE OFFICERS OF THE COMBINED COMPANY

Described below are the transactions and series of similar transactions of Microbot since January 1, 2015 in which:

- the amounts involved exceeded or will exceed $120,000; and
- any of the directors, executive officers, holders of more than 5% of capital stock (sometimes refer to as 5% stockholders below) or any member of their immediate family had or will have a direct or indirect material interest.

Microbot Transactions

Consulting Arrangements with Mr. Gadot

In March 2011, Microbot entered into a consulting agreement with MEDX Ventures Group LLC, of which Mr. Gadot is the Chief Executive Officer, Company Group Chairman and majority equity owner (the Gadot Consulting Agreement), pursuant to which Mr. Gadot serves as Microbot s Chief Executive Officer. Under the terms of the Gadot Consulting Agreement, MEDX Ventures Group receives a monthly fee of $17,000, which amount increases to $25,000 per month upon the consummation of a merger or other similar transaction. Under the Gadot Consulting Agreement, MEDX Ventures Group and Mr. Gadot are subject to customary non-competition, non-solicitation, confidentiality and intellectual property ownership provisions. In addition, MEDX Ventures Group is entitled to receive reimbursement for all direct expenses in connection with the performance of services under the Gadot Consulting Agreement. Either Microbot or MEDX Ventures Group may terminate the Gadot Consulting Agreement upon 60 days written notice. MEDX Ventures Group LLC is a stockholder of Microbot. Microbot expects to enter into an employment agreement or to amend the Gadot Consulting Agreement with Mr. Gadot prior to, and contingent upon, the completion of the Merger.

2015 Bridge Notes

In 2015, Microbot issued convertible promissory notes, at an interest rate of 10%, in the aggregate principal amount of $411,500 (the 2015 Notes) to certain investors and Microbot shareholders. The 2015 Notes matured on July 8, 2016. The principal and accrued but unpaid interest on the 2015 Notes converted into 452,650 shares of Series A Preferred Stock and warrants to purchase 409,750 shares of Series A Preferred Stock. The table below sets forth the 2015 Notes with aggregate principal in excess of $120,000 that were purchased by Microbot s directors, executive officers and holders of more than 5% of its capital stock.

Name of 2015 Bridge Note Holder	Outstanding Principal Purchased in 2015
Saber Holding GmbH	$ 140,000
Leon Lewkowicz	$ 140,000

2016 Bridge Notes

In 2016, Microbot issued convertible promissory notes, at an annual interest rate of 10%, in the aggregate principal amount of $750,000 (the 2016 Notes) to certain investors and Microbot shareholders. The principal and accrued but unpaid interest on the 2016 Notes will convert, at a 20% discount, into common stock upon the consummation of the Merger. The table below sets forth the 2016 Notes with aggregate principal in excess of $120,000 that were purchased by Microbot s directors, executive officers and holders of more than 5% of its capital stock.

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Name of 2016 Bridge Note Holder	Outstanding Principal Purchased in 2016
Alpha Capital Anstalt	$ 400,000
Saber Holding GmbH	$ 175,000
Leon Lewkowicz	$ 175,000

License Agreement with Technion

Microbot entered into a license agreement with Technion Research and Development Foundation Ltd., or TRDF, in 2012 pursuant to which Microbot obtained an exclusive, worldwide, royalty-bearing, sub-licensable license to certain patents and inventions relating to the SCS and TipCAT technology platforms. TRDF is a founding member of Microbot and current beneficially owns approximately 14.5% of Microbot s ordinary shares on an as converted basis. See Microbot Business Intellectual Property for a description of this agreement.

Microbot Private Placement in Connection with Merger

Pursuant to the Merger Agreement, Microbot is obligated to raise no less than $4.0 million in one or more private placements prior to the closing of the Merger, which amount would provide the combined company with at least 18 months of cash to fund operations post-closing, assuming a minimum net cash amount of not less than $0 at closing.

On August 15, 2016, Microbot and Alpha Capital Anstalt, entered into an agreement pursuant to which, among other things, Alpha Capital Anstalt agreed to fund the Microbot Private Placement, which obligation shall be reduced dollar-for-dollar by any third party investors investing in the Microbot Private Placement.

As of the date of this proxy statement, Microbot has not sold any securities in the Microbot Private Placement.

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STEMCELLS BUSINESS

Nature of Business

StemCells, Inc., a Delaware corporation, is a biopharmaceutical company that operates in one segment, the research, development, and commercialization of stem cell therapeutics and related technologies.

Wind-down of operations

In May 2016, StemCells decided to terminate its Phase II Pathway Study in spinal cord injury following an in-depth review of data from the study and after obtaining the concurrence of the study s Interim Analysis Data Monitoring Committee. While the results showed overall improvement in patients treated with StemCells proprietary cells, the magnitude of the effect and the perceived trend of the effect over time did not justify continuing the study or exploring the variability in the initial patient observations, given the financial resources available to StemCells. Following this, in May 2016, StemCells Board of Directors approved a plan to wind down StemCells current operations, having considered the decision to terminate the Pathway Study, StemCells available strategic alternatives and the current cash position. StemCells is evaluating opportunities to monetize its intellectual property, including data collected in its studies and trade secrets, as well as the transfer of StemCells proprietary HuCNS-SC cells and other assets through a potential sale. As part of the wind down of StemCells operations, StemCells conducted a reduction of its work force impacting all of its remaining full-time employees, consisting of approximately 50 employees. It also effected the sales of its GMP manufacturing facilities and of its remaining research and laboratory equipment. On August 14, 2016, StemCells Chief Executive Officer and Chief Financial Officer notified the board of directors of their intention to resign. Their resignations were effective as of August 15, 2016. In addition, on August 15, 2016, in connection with the announcement of the signing of the Merger Agreement, three of StemCells board members resigned from their positions as members of the Board of Directors.

StemCells had recorded approximately $3,803,000 in wind-down expenses for the quarter ended June 30, 2016. StemCells has incurred significant operating losses since inception and has an accumulated deficit of $463,732,581 through June 30, 2016. As of June 30, 2016, StemCells had cash and cash equivalents of approximately $2,449,000. StemCells expects to incur additional operating losses over the foreseeable future.

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STEMCELLS MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with StemCells unaudited financial statements and related notes included in Item 1, Financial Statements, of the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016, as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. This discussion may contain forward looking statements that involve substantial risks and uncertainties. Such statements include, without limitation, all statements as to expectation or belief and statements as to our future results of operations. Forward looking statements can be identified by the use of words such as believe, expect, may, will, should, intend, anticipate or the negative thereof or comparable terminology, and include discussions of matters such as anticipated financial performance, liquidity and capital resources, business prospects, technological developments, new and existing products, regulatory approvals and research and development activities. StemCells actual results may vary materially from those contained in such forward-looking statements because of risks to which StemCells is subject. All forward-looking statements attributable to StemCells or to persons acting on StemCells behalf are expressly qualified in their entirety by the cautionary statements and risk factors set forth in the section entitled Risk Factors on page 20 and Risk Factors in Part I, Item 1A of our Form 10-K for the year ended December 31, 2015 and in Part I, Item IA of our Form 10-Q for the fiscal quarter ended June 30, 2016.

Overview

The Company

StemCells was engaged in the research, development, and commercialization of cell-based therapeutics. StemCells research and development (R&D) programs were primarily focused on identifying and developing potential cell-based therapeutics which could either restore or support organ function. In particular, since StemCells relocated its operations to California in 1999, StemCells R&D efforts had been directed at refining StemCells methods for identifying, isolating, culturing, and purifying the human neural stem cell and developing this cell as potential cell-based therapeutics for the central nervous system (CNS).

In October 2014, StemCells had initiated a Phase II proof of concept clinical trial to further investigate its HuCNS-SC cells as a treatment for spinal cord injury. The Phase II Pathway Study, was the first clinical trial designed to evaluate both the safety and efficacy of transplanting human neural stem cells into patients with cervical spinal cord injury. Traumatic injuries to the cervical (neck) region of the spinal cord, also known as tetraplegia or quadriplegia, impair sensation and motor function of the hands, arms, legs, and trunk. The trial was conducted as a randomized, controlled, single-blind study and efficacy was to be primarily measured by assessing motor function according to the International Standards for Neurological Classification of Spinal Cord Injury (ISNCSCI). The primary efficacy outcome would focus on change in upper extremity strength as measured in the hands, arms, and shoulders. The trial was to follow the participants for one year and enroll up to fifty-two subjects. The trial was planned for three cohorts; the first cohort was an open-label dose escalation arm involving six patients to determine the cell dose to be used for the second and third cohort of the study; the second cohort would have enrolled forty patients to form the single blinded controlled arm of the Phase II study with the primary efficacy outcome to be tested was the change in motor strength of the various muscle groups in the upper extremities innervated by the cervical spinal cord; the third cohort was planned as an optional open label cohort targeted to enroll six patients to assess safety and preliminary efficacy in patients with less severe injuries (AIS C). StemCells transplanted its first subject in this Phase II trial in December 2014 and completed transplanting the six patients comprising the first cohort of this trial in April 2015. The six-month results for the first cohort showed that muscle strength had improved in five of the six patients with four of these five patients also demonstrating improved performance on functional tasks assessing dexterity and fine motor skills. In addition, four of the six patients showed improvement in the level of spinal cord injury as defined and measured by

the ISNCSCI assessment of at least one level. StemCells commenced enrollment of the second cohort in the Pathway Study in June 2015 and had thirteen sites in the United States and Canada that were actively recruiting

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patients. StemCells expected to complete enrollment of Cohort II by the end of the third quarter of 2016, and StemCells expected to have final results of this trial before year-end 2017. However, before this could happen, StemCells observed in the first cohort of the Pathway Study a declining trend in the magnitude of the effect in both strength and function at the twelve-month time point. While the results at twelve months were still improved from baseline, this late variability led StemCells to conduct an earlier-than-planned interim analysis of the Cohort II data. The results of this interim analysis were reviewed by us as well as by an IA-DMC. In performing the interim analysis of Cohort II, an IA-DMC consisting of three leading clinicians in the spinal cord injury field, reviewed the accrued data to date against specific clinically relevant criteria linked to achieving the statistically significant result for improving motor strength and function in treated patients. Following this analysis, the IA-DMC concluded that the data failed the futility criteria established for the interim analysis and, based on this, recommended cessation of the study. StemCells took the IA-DMC s recommendation under advisement in making our decision to terminate the Pathway Study.

Previous clinical trials conducted by StemCells included:

a Phase I/II clinical trial of StemCells HuCNS-SC cells for the treatment of thoracic spinal cord injury which represents the first time that neural stem cells have been transplanted as a potential therapeutic agent for spinal cord injury. The Phase I/II trial evaluated both safety and preliminary efficacy of StemCells proprietary HuCNS-SC human neural stem cells as a treatment for chronic thoracic spinal cord injury. The trial was completed in May 2014. StemCells reported the results from twelve-month data that revealed sustained improvements in sensory function that emerged consistently around three months after transplantation and persisted until the end of the study. The patterns of sensory gains were confirmed to involve multiple sensory pathways and were observed more frequently in the patients with less severe injury; three of the seven AIS A patients and four of the five AIS B patients showed signs of positive sensory gains confirming the previously reported interim results. In addition, two patients progressed during the study from the most severe classification, AIS A, to the lesser degree of injury grade, AIS B.

a Phase I/II clinical trial in dry AMD at five trial sites in the United States to evaluate the safety and preliminary efficacy of sub-retinal HuCNS-SC cell transplantation in geographic atrophy (GA), the most advanced form of dry AMD. The trial was completed in June 2014. Multiple safety and efficacy assessments were incorporated into the study, including various assessments of visual function and measurements of disease status by direct retinal examination. The tests in the study included best-corrected visual acuity (BCVA), contrast sensitivity (CS), microperimetry for analysis of visual function, optical coherence tomography (OCT), and fundus autofluorescence (FAF) to measure the extent of the underlying geographic atrophy. Initial assessment of data from the Phase I/II trial indicate that the BCVA and CS measurements for the majority of the patients in the study either improved or remained stable in the treated eye. OCT analysis showed increases in central subfield thickness and in macular volume in the treated eye relative to the untreated eye. For those patients enrolled in the study with lesions sizes consistent with the eligibility criteria for enrollment in StemCells Phase II efficacy study, the study showed GA growth rates in the study eye that were lower than those seen in the control eye.

a Phase II randomized, controlled proof-of-concept study was designed to evaluate both the safety and efficacy of StemCells proprietary HuCNS-SC cells for the treatment of GA. The study was designed to enroll sixty-three patients between 50-90 years of age with bi-lateral GA-AMD (geographic atrophy

associated with age related macular degeneration in both eyes). Designed as a fellow eye controlled study, all subjects were to receive subretinal transplantation of HuCNS-SC cells via a single injection into the eye with the inferior best-corrected visual acuity; the untreated eye would serve as a control. The objective of the trial was to demonstrate a reduction in the rate of GA disease progression in the treated eye versus the control eye. In December 2015, however, StemCells initiated a strategic realignment plan to fully focus our resources on StemCells proprietary HuCNS-SC cells for the treatment of chronic spinal cord injury. A key elements of the plan included the immediate suspension

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of further patient enrollment into our Phase II Radiant Study in GA-AMD as well as the modification of certain service agreements related to the AMD program.

a Phase I clinical trial in infantile and late infantile neuronal ceroid lipofuscinosis (NCL), which showed that StemCells HuCNS-SC cells were well tolerated and non-tumorigenic, and that there was evidence of engraftment and long-term survival of the transplanted HuCNS-SC cells. In October 2013, the results of a four-year, long-term follow up study of the patients from the initial Phase I study showed there were no long-term safety or tolerability issues associated with the cells up to five years post-transplantation.

a four-patient Phase I clinical trial in PMD, which is a myelination disorder in the brain. The data showed preliminary evidence of durable and progressive donor-derived three of the four patients, with the fourth patient clinically stable.

In April 2013, StemCells entered into an agreement with the California Institute for Regenerative Medicine (CIRM) under which CIRM would have provided up to approximately $19.3 million as a forgivable loan, in accordance with mutually agreed upon terms and conditions and CIRM regulations. The CIRM loan helped fund preclinical development of StemCells HuCNS-SC cells for Alzheimer s disease. Between July 2013 and August 2014, StemCells received in aggregate, approximately $9.6 million as disbursements of the loan provided under the CIRM Loan Agreement. However, in December 2014, as findings under this preclinical study in Alzheimer s disease did not meet certain pre-determined criteria for continued funding of this program by CIRM, the parties terminated the loan agreement and StemCells wound down this preclinical study which had been funded in part by the CIRM loan agreement. In February 2015, StemCells repaid CIRM approximately $679,000 of the aggregate loan proceeds received. Under the terms of the CIRM loan agreement, principal amount of approximately $8,917,000 and accrued interest of approximately $243,000 were forgiven. However, authoritative accounting guidance requires certain conditions (which includes a legal release from the creditor) to be met before a liability can be extinguished and derecognized. In May 2016, StemCells issued a letter to CIRM that constitutes notice that we elected to convert the loan into a Grant pursuant to the CIRM s Loan Administration Policy, as amended effective April 25, 2016, and as if the forgiven loan balance had been total allowable project costs funded by CIRM. In the second quarter of 2016, StemCells re-classified the principal amount of approximately $8,917,000 as Other income and the accrued interest of approximately $243,000 as Gain on extinguishment of a loan in our Condensed Consolidated Statement of Operations.

Reverse Stock Split

StemCells effected a one-for-twelve reverse stock split on May 6, 2016. As a result of the reverse stock split, each twelve shares of StemCells common stock automatically combined into and became one share of StemCells common stock. Any fractional shares which would otherwise be due as a result of the reverse stock split were rounded up to the nearest whole share. Concurrent with the reverse stock split, StemCells reduced the authorized number of common shares from 225 million to 200 million. The reverse stock split automatically and proportionately adjusted, based on the one-for-twelve split ratio, all issued and outstanding shares of our common stock, as well as common stock underlying stock options, warrants and other derivative securities outstanding at the time of the effectiveness of the reverse stock split. The exercise price on outstanding equity based-grants was proportionately increased, while the number of shares available under StemCells equity-based plans was also proportionately reduced. Share and per share data (except par value) for the periods presented reflect the effects of this reverse stock split. References to numbers of shares of common stock and per share data in the accompanying financial statements and notes thereto have been adjusted to reflect the reverse stock split on a retroactive basis.

Wind-down of operations

In May 2016, StemCells decided to terminate its Phase II Pathway Study in spinal cord injury following an in-depth review of data from the study and after obtaining the concurrence of the study s Interim Analysis Data

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Monitoring Committee. While the results showed overall improvement in patients treated with StemCells proprietary cells, the magnitude of the effect and the perceived trend of the effect over time did not justify continuing the study or exploring the variability in the initial patient observations, given the financial resources available to StemCells. Following this, in May 2016, StemCells Board of Directors approved a plan to wind down its current operations, having considered the decision to terminate the Pathway Study, available strategic alternatives and the current cash position. StemCells is evaluating opportunities to monetize its intellectual property, including data collected in its studies and trade secrets, as well as the transfer of StemCells proprietary HuCNS-SC cells and other assets through a potential sale. StemCells will not proceed with earlier plans to conduct a rights offering, for which StemCells had filed a registration statement with the SEC. As part of the wind down of our operations, StemCells conducted a reduction of work force impacting all of the remaining full-time employees, consisting of approximately 50 employees and exited our facilities, as of August 1, 2016. StemCells recorded approximately $3,803,000 in wind-down expenses for the quarter ended June 30, 2016.

As of August 1, 2016, StemCells had cash and cash equivalents of approximately $900,000. If StemCells plans to liquidate the Company, StemCells cannot determine with certainty the amount of any liquidating distribution to its stockholders and it is possible that there will be no liquidating distribution to stockholders. The amount of any cash distributed to StemCells stockholders will depend upon, among other things, StemCells current liquid assets offset by StemCells known and unknown liabilities as well as operating expenses associated with the wind down.

Critical Accounting Policies and the Use of Estimates

The accompanying discussion and analysis of StemCells financial condition and results of operations are based on StemCells condensed consolidated financial statements and the related disclosures, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates, assumptions, and judgments that affect the reported amounts in StemCells condensed consolidated financial statements and accompanying notes. These estimates form the basis for making judgments about the carrying values of assets and liabilities. StemCells bases its estimates and judgments on historical experience and on various other assumptions that StemCells believes to be reasonable under the circumstances, and StemCells has established internal controls related to the preparation of these estimates. Actual results and the timing of the results could differ materially from these estimates.

Stock-Based Compensation

U.S. GAAP requires StemCells to recognize expense related to the fair value of our stock-based payment awards, including employee stock options and restricted stock units. Under the provisions of U.S. GAAP, the fair value of StemCells employee stock-based payment awards is estimated at the date of grant using the Black-Scholes-Merton (Black-Scholes) option-pricing model and is recognized as expense ratably over the requisite service period. The Black-Scholes option-pricing model requires the use of certain assumptions, the most significant of which are StemCells estimates of the expected volatility of the market price of StemCells stock and the expected term of the award. StemCells estimate of the expected volatility is based on historical volatility. The expected term represents StemCells estimated period during which StemCells stock-based awards remain outstanding. StemCells estimates the expected term based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements, and expectation of future employee behavior, including post-vesting terminations.

In May 2016, StemCells Board of Directors approved a plan to wind down our current operations, having considered the decision to terminate the Pathway Study, the available strategic alternatives and StemCells current cash position. As part of the wind down of StemCells operations, StemCells conducted a reduction of its work force impacting all of its remaining full-time employees, consisting of approximately 50 employees, as of August 1, 2016. Unvested options

and RSUs of the employees impacted were forfeited. As of June 30, 2016, total unrecognized compensation expense related to unvested awards of stock option and restricted stock units is not significant.

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Warrant Liability

StemCells accounts for its warrants in accordance with U.S. GAAP which defines how freestanding contracts that are indexed to and potentially settled in a company s own stock should be measured and classified. Authoritative accounting guidance prescribes that only warrants issued by StemCells under contracts that cannot be net-cash settled, and are both indexed to and settled in StemCells common stock, can be classified as equity.

As part of StemCells December 2011 financing, StemCells issued Series A Warrants with a five year term to purchase 666,667 shares at $16.80 per share and Series B Warrants with a ninety trading day term to purchase 666,667 units at $15.00 per unit. Each unit underlying the Series B Warrants consisted of one share of StemCells common stock and one Series A Warrant. In the first and second quarter of 2012, an aggregate of 225,000 Series B Warrants were exercised. For the exercise of these warrants, StemCells issued 225,000 shares of StemCells common stock and 225,000 Series A Warrants. The remaining 441,667 Series B Warrants expired unexercised by their terms on May 2, 2012. The Series A Warrants contain full ratchet anti-dilution price protection so that, in most situations, upon the issuance of any common stock or securities convertible into common stock at a price below the then-existing exercise price of the Series A Warrants, the Series A exercise price will be reset to the lower common stock sales price. As a result of StemCells April 2015 financing, the exercise price of the outstanding Series A warrants were reduced from $16.80 per share to $8.40 per share. Subsequently, as a result of StemCells sale of shares of StemCells common stock under a sales agreement entered into in 2009 and amended in 2012, the exercise price of the outstanding Series A warrants was reduced from $8.40 per share to $6.24 per share and as a result of StemCells March 2016 financing, the exercise price of these warrants was reduced to approximately $3.60 per share. As terms of the Series A Warrants do not meet the specific conditions for equity classification, StemCells is required to classify the fair value of these warrants as a liability, with subsequent changes in fair value to be recorded as income (loss) due to change in fair value of warrant liability. The fair value of the Series A Warrants is determined using a Black-Scholes model See Note 11 Warrant Liability in the notes to condensed consolidated financial statements of Part I, Item 1 of StemCells Form 10-Q for further information. The fair value is affected by changes in inputs to these models including StemCells stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. StemCells will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability. The estimated fair value of StemCells 2011 Series A warrant liability at June 30, 2016, was approximately $57,000.

In March 2016, StemCells raised gross proceeds of approximately $8,000,000 through an underwritten public offering of 2,222,250 units, at a price of $3.60 per unit, before deducting underwriting discounts and other offering expenses. Each unit consists of a fixed combination of one share of StemCells common stock, a Series A Warrant to purchase 0.50 of a share of StemCells common stock, and a Series B Warrant to purchase 0.75 of a share of StemCells common stock. Each Series A Warrant has an exercise price of $3.60 per share, is immediately exercisable, and will expire two years from the date of issuance. Each Series B Warrant has an exercise price of $5.04 per share, will become exercisable upon stockholder approval of an increase in StemCells authorized capital and the one-year anniversary of the issuance date, whichever is later, and will expire on the fifth anniversary of the date they become exercisable. In connection with the offering, StemCells granted the underwriters a 45-day option to purchase up to an additional 333,338 shares of StemCells common stock and/or warrants to purchase up to an additional 416,672 shares of StemCells common stock to cover over-allotments, if any. The option was exercised in part and StemCells issued an additional 166,473 of Series A warrants and 249,709 of Series B Warrants. The Series A and Series B Warrants contain full ratchet anti-dilution price protection for two years so that, in most situations, upon the issuance of any common stock or securities convertible into common stock at a price below the then-existing exercise price of the respective warrants, the exercise price of these warrants will be reset to the lower common stock sales price. The initial shares and warrants were offered under StemCells effective shelf registration statement previously filed with the SEC. StemCells intends to file a subsequent registration statement to register the common shares issuable when

the Series B Warrants become exercisable. As terms of the Series A and Series B Warrants do not meet the specific conditions for equity classification, StemCells is required to classify the fair value of these warrants as a liability,

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with subsequent changes in fair value to be recorded as income (loss) due to change in fair value of warrant liability. The fair value of the Series A and Series B Warrants is determined using a Black-Scholes model. See Note 11 Warrant Liability in the notes to condensed consolidated financial statements of Part I, Item 1 of StemCells Form 10-Q for further information. The fair value is affected by changes in inputs to these models including StemCells stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. StemCells will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability. The estimated fair value of StemCells warrant liability for the 2016 Series A and 2016 Series B warrants at June 30, 2016, was approximately $160,000 and $374,000 respectively.

Revenue Recognition

StemCells currently recognizes revenue resulting from the licensing and use of StemCells technology and intellectual property. Licensing agreements may contain multiple elements, such as upfront fees, payments related to the achievement of particular milestones and royalties. Revenue from upfront fees for licensing agreements that contain multiple elements are generally deferred and recognized on a straight-line basis over the term of the agreement. Fees associated with substantive at risk performance-based milestones are recognized as revenue upon completion of the scientific or regulatory event specified in the agreement, and royalties received are recognized as earned. Revenue from licensing agreements is recognized net of a fixed percentage due to licensors as royalties.

Results of Operations

StemCells results of operations have varied significantly from year to year and quarter to quarter and may vary significantly in the future due to the occurrence of material recurring and nonrecurring events, including without limitation the receipt and payment of recurring and nonrecurring licensing payments, the initiation or termination of clinical studies, research collaborations and development programs for both cell-based therapeutic products and research tools, unpredictable or unanticipated manufacturing and supply costs, unanticipated capital expenditures necessary to support StemCells business, developments in on-going patent prosecution and litigation, the on-going expenses to maintain StemCells facilities.

Revenue

Revenue for the three and six-month periods ended June 30, 2016, as compared with the same period in 2015, is summarized in the table below:

	Three months ended June 30,		Change in 2016 vs 2015		Six months ended June 30,		Change in 2016 vs 2015	
	2016	2015	$	%	2016	2015	$	%
Revenue:								
Revenue from licensing agreements	$ 29,311	$ 30,131	$ (820)	(3)%	$ 52,475	$ 51,128	$ 1,347	3%

Second quarter ended June 30, 2016 versus second quarter ended June 30, 2015. Total revenue in the second quarter of 2016 was approximately $29,000 compared to approximately $30,000 for the second quarter of 2015.

Six-month period ended June 30, 2016 versus six-month period ended June 30, 2015. Total revenue in the six-month period ended June 30, 2016 was approximately $52,000 and approximately $51,000 for the same period of 2015.

Licensing revenue for the first quarters and six-month periods for 2016 and 2015 were not significant.

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Operating Expenses

Operating expenses for the three and six-month periods ended June 30, 2016, as compared with the same period in 2015, is summarized in the table below:

	Three months ended June 30,		Change in 2016 vs 2015		Six months ended June 30,		Change in 2016 vs 2015	
	2016	2015	$	%	2016	2015	$	%
Operating expenses:								
Research and development	$ 3,694,097	$ 7,238,985	$ (3,544,888)	(49)%	$ 8,902,802	$ 13,531,176	$ (4,628,374)	(34)%
General and administrative	1,415,719	2,063,729	(648,010)	(31)%	6,044,053	4,752,925	1,291,128	27%
Wind-down expense	3,803,448		3,803,448	*	3,803,448		3,803,448	*
Total operating expenses	$ 8,913,264	$ 9,302,714	$ (389,450)	(4)%	$ 18,750,303	$ 18,284,101	$ 466,202	3%

*Calculation not meaningful

Research and Development Expenses

StemCells R&D expenses historically consisted primarily of salaries and related personnel expenses, costs associated with clinical trials and regulatory submissions, costs associated with preclinical activities such as toxicology studies, costs associated with cell processing and process development, certain patent-related costs such as licensing, facilities related costs such as allocated rent and operating expenses, depreciation, lab equipment and supplies. Clinical trial expenses include payments to vendors such as clinical research organizations, contract manufacturers, clinical trial sites, laboratories for testing clinical samples and consultants. Cumulative R&D costs incurred since StemCells refocused its activities on developing cell-based therapeutics (fiscal years 2000 through the six months ended June 30, 2016) were approximately $246 million. Over this period, the majority of these cumulative costs were related to: (i) characterization of StemCells proprietary HuCNS-SC cells, (ii) expenditures for toxicology and other preclinical studies, preparation and submission of applications to regulatory agencies to conduct clinical trials and obtaining regulatory clearance to initiate such trials, all with respect to its proprietary HuCNS-SC cells, (iii) preclinical studies and development of its human liver engrafting cells, (iv) costs associated with cell processing and process development, and (v) costs associated with StemCells clinical studies.

StemCells managed its R&D resources, including StemCells employees and facilities, across various projects rather than on a project-by-project basis for the following reasons. The allocations of time and resources change as the needs and priorities of individual projects and programs change, and many of StemCells researchers were assigned to more than one project at any given time. Furthermore, StemCells was exploring multiple possible uses for its proprietary HuCNS-SC cells, so much of StemCells R&D effort is complementary to and supportive of each of these projects. Lastly, much of StemCells R&D effort was focused on manufacturing processes, which can result in process improvements useful across cell types. StemCells also used external service providers to assist in the conduct of StemCells clinical trials and to provide various other R&D related products and services. Many of these costs and

expenses were complementary to and supportive of each of StemCells programs. Because we StemCells does not have a development collaborator for any of StemCells product programs, StemCells was responsible for all costs incurred with respect to its product candidates.

In May 2016, StemCells decided to terminate its Phase II Pathway Study in spinal cord injury following an in-depth review of data from the study and after obtaining the concurrence of the study s Interim Analysis Data Monitoring Committee. While the results showed overall improvement in patients treated with StemCells proprietary cells, the magnitude of the effect and the perceived trend of the effect over time did not justify continuing the study or exploring the variability in the initial patient observations, given the financial resources available to StemCells. Following this, in May 2016, StemCells Board of Directors approved a plan to wind down StemCells current operations, having considered the decision to terminate the Pathway Study, StemCells available strategic alternatives and StemCells current cash position. StemCells is evaluating opportunities to

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monetize StemCells intellectual property, including data collected in studies and trade secrets, as well as the transfer of StemCells proprietary HuCNS-SC cells and other assets through a potential sale. StemCells will not proceed with earlier plans to conduct a rights offering, for which StemCells had filed a registration statement with the SEC. As part of the wind down of StemCells operations, StemCells conducted a reduction of its work force impacting all of its remaining full-time employees, consisting of approximately 50 employees and exited its facilities, as of August 1, 2016. Effective May 31, 2016, in accordance with U.S. GAAP, StemCells recorded expenses associated with the wind-down of its operations in the period in which the liability was incurred. These expenses were recorded as wind-down expense in StemCells Condensed Consolidated Statement of Operations.

Second quarter ended June 30, 2016 versus second quarter ended June 30, 2015. R&D expenses totaled approximately $3,694,000 in the second quarter of 2016 compared with $7,239,000 in the second quarter of 2015. The decrease of approximately $3,500,000, or 49%, in 2016 compared to 2015, was primarily attributable to the wind-down of StemCells research and development programs and other operations in May 2016.

Six-month period ended June 30, 2016 versus six-month period ended June 30, 2015. R&D expenses totaled approximately $8,903,000 in the six-month period ended June 30, 2016 compared with $13,531,000 for the same period in 2015. The decrease of approximately $4,600,000, or 34%, in 2016 compared to 2015, was primarily attributable to the wind-down of StemCells research and development programs in May 2016.

General and Administrative Expenses

General and administrative (G&A) expenses are primarily comprised of salaries, benefits and other staff related costs associated with sales and marketing, finance, legal, human resources, information technology, and other administrative personnel, allocated facilities and overhead costs, external legal and other external general and administrative services. Effective May 31, 2016, in accordance with U.S. GAAP, StemCells recorded expenses associated with the wind-down of StemCells operations in the period in which the liability was incurred. These expenses were recorded as wind-down expense in StemCells Condensed Consolidated Statement of Operations.

Second quarter ended June 30, 2016 versus second quarter ended June 30, 2015. G&A expenses totaled approximately $1,416,000 in the second quarter of 2016 compared with approximately $2,064,000 in the same period of 2015. The decrease of approximately $648,000, or 31%, in 2016 compared to 2015, was primarily attributable to the wind-down of StemCells operations in May 2016. Effective May 31, 2016, in accordance with U.S. GAAP, StemCells recorded expenses associated with the wind-down of StemCells operations in the period in which the liability was incurred. These expenses were recorded as wind-down expense in its Condensed Consolidated Statement of Operations.

Six-month period ended June 30, 2016 versus six-month period ended June 30, 2015. G&A expenses totaled approximately $6,044,000 in the six-month period ended June 30, 2016 compared with approximately $4,753,000 in the same period of 2015. The increase of approximately $1,291,000, or 27%, in 2016 compared to 2015, was primarily attributable to a separation and consulting agreement with StemCells previous Chief Executive Officer who resigned in January 2016. The separation agreement included expenses of approximately $1,257,000 in salary and benefits, and approximately $920,000 in stock based compensation expense for accelerated vesting of his outstanding equity awards (net of cancellations). The increase was also attributable to higher costs for external services; primarily legal fees of approximately $753,000. The increase was partially offset by the wind-down of StemCells operations in May 2016. Effective May 31, 2016, in accordance with U.S. GAAP, StemCells recorded expenses associated with the wind-down of StemCells operations in the period in which the liability was incurred. These expenses were recorded as wind-down expense in StemCells Condensed Consolidated Statement of Operations.

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Other Income (Expense)

Other income totaled approximately $11,399,000 in the second quarter of 2016 compared with other income of approximately $811,000 in the same period of 2015, and other income of approximately $11,652,000 for the six-month period ended June 30, 2016 compared with other income of approximately $421,000 for the six-month period ended June 30, 2015.

	Three months ended June 30,		Change in 2016 vs 2015		Six months ended June 30,		Change in 2016 vs 2015	
	2016	2015	$	%	2016	2015	$	%
Other income (expense):								
Change in fair value of warrant liability	$ 5,568,634	$ 988,367	$ 4,580,267	463%	$ 5,846,862	$ 641,037	$ 5,205,825	812%
Conversion of CIRM loan into a grant	8,916,641		8,916,641	*	8,916,641		8,916,641	*
Gain on extinguishment of loan payable	242,931		242,931	*	242,931		242,931	*
Write-down of fixed assets	(3,332,736)		(3,332,736)	*	(3,332,736)		(3,332,736)	*
Interest income	4,069	2,139	1,930	90%	8,312	3,533	4,779	135%
Interest expense	(128)	(146,267)	146,139	(100)%	(28,029)	(331,623)	303,594	(92)%
Other income (expense), net		(33,370)	33,370	(100)%	(2,100)	107,611	(109,711)	(102)%
Total other expense, net	$ 11,399,411	$ 810,869	$ 10,588,542	*	$ 11,651,881	$ 420,558	$ 11,231,323	*

*Calculation not meaningful

Change in Fair Value of Warrant Liability

StemCells record changes in fair value of warrant liability as income or loss in StemCells Condensed Consolidated Statements of Operations. StemCells has warrants outstanding which were issued as part of several transactions and have classified the fair value of certain warrants that did not meet the specific conditions for equity classification as a liability. The fair value of the outstanding warrants is determined using the Black-Scholes-Merton (Black-Scholes) option pricing model, and is affected by changes in inputs to the various models, including StemCells stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. The fair value of the warrant liability is revalued at the end of each reporting period. See Note 11 Warrant Liability in the notes to condensed consolidated financial statements of Part I, Item 1 of StemCells Form 10-Q for further information.

Conversion of CIRM loan into a grant

In April 2013, StemCells entered into an agreement with the California Institute for Regenerative Medicine (CIRM) under which CIRM would have provided up to approximately $19.3 million as a forgivable loan, in accordance with mutually agreed upon terms and conditions and CIRM regulations. The CIRM loan helped fund preclinical development of StemCells HuCNS-SC cells for Alzheimer s disease. Between July 2013 and August 2014, StemCells received in aggregate, approximately $9.6 million as disbursements of the loan provided under the CIRM Loan Agreement. However, in December 2014, as findings under this preclinical study in Alzheimer s disease did not meet certain pre-determined criteria for continued funding of this program by CIRM, the parties terminated the loan agreement and StemCells wound down this preclinical study which had been funded in part by the CIRM loan agreement. In February 2015, StemCells repaid CIRM approximately $679,000 of the aggregate loan proceeds received. Under the terms of the CIRM loan agreement, principal amount of approximately $8,917,000 and accrued interest of approximately $243,000 were forgiven. However, authoritative accounting guidance requires certain conditions (which includes a legal release from the creditor) to be met before a liability can be extinguished and derecognized. In May 2016, StemCells issued a letter to CIRM that

constitutes notice that StemCells elected to convert its loan into a grant pursuant to the CIRM s Loan Administration Policy, as amended effective April 25, 2016, and as if the forgiven loan balance had been total allowable project costs funded by CIRM. In the second quarter of 2016, StemCells re-classified the principal amount of approximately $8,917,000 as Other income .

Gain on Extinguishment of Debt

In April 2013, StemCells entered into an agreement with the California Institute for Regenerative Medicine (CIRM) under which CIRM would have provided up to approximately $19.3 million as a forgivable loan, in accordance with mutually agreed upon terms and conditions and CIRM regulations. The CIRM loan helped fund preclinical development of our HuCNS-SC cells for Alzheimer s disease. Between July 2013 and August 2014, StemCells received in aggregate, approximately $9.6 million as disbursements of the loan provided under the CIRM Loan Agreement. However, in December 2014, as findings under this preclinical study in Alzheimer s disease did not meet certain pre-determined criteria for continued funding of this program by CIRM, the parties terminated the loan agreement and StemCells wound down this preclinical study which had been funded in part by the CIRM loan agreement. In February 2015, StemCells repaid CIRM approximately $679,000 of the aggregate loan proceeds received. Under the terms of the CIRM loan agreement, principal amount of approximately $8,917,000 and accrued interest of approximately $243,000 were forgiven. However, authoritative accounting guidance requires certain conditions (which includes a legal release from the creditor) to be met before a liability can be extinguished and derecognized. In May 2016, StemCells issued a letter to CIRM that constitutes notice that StemCells elected to convert the loan into a Grant pursuant to the CIRM s Loan Administration Policy, as amended effective April 25, 2016, and as if the forgiven loan balance had been total allowable project costs funded by CIRM. In the second quarter of 2016, StemCells re-classified the principal amount of approximately $8,917,000 as Other income and the accrued interest of approximately $243,000 as Gain on extinguishment of a loan in StemCells Condensed Consolidated Statement of Operations.

Write-down of Fixed Assets

May 30, 2016, StemCells Board of Directors approved a plan to wind down StemCells current operations, having considered the decision to terminate the Pathway Study, StemCells available strategic alternatives and StemCells current cash position. As part of the wind down of StemCells operations, StemCells conducted a reduction of its work force impacting all of its remaining full-time employees, consisting of approximately 50 employees, termed StemCells commercial lease agreements and exited StemCells two facilities located in Newark and Sunnyvale, California, as of August 1, 2016. By way of an auction, StemCells sold all of its tangible assets at its Newark facility in July 2016 and received approximately $800,000 in respect of such sale on August 1. In July 2016, the lease for StemCells Sunnyvale facility was taken over by an unrelated Company. As part of the lease transfer, the unrelated Company acquired all of StemCells tangible assets at this facility for $650,000. At June 30, 2016, StemCells wrote down these assets to its realizable value by a write-off of approximately $3,333,000 and classified the realizable value of these assets as Assets held for sale in StemCells Condensed Consolidated Balance Sheets.

Interest Income

Interest income in three-and six-month period ended June 30, 2016 and 2015 were not significant and is from the investment of StemCells cash balances in money market accounts and short-term money market instruments that are highly liquid and that preserves capital.

Interest Expense

Interest expense was approximately $128 in the second quarter of 2016 compared with approximately $146,000 for the second quarter of 2015. Interest expense was approximately $28,000 for the six-month period ended June 30, 2016 compared with approximately $332,000 for the six-month period ended June 30, 2015.

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Interest expense in the three-and six month period of 2015 is primarily attributable to interest due under a Loan Agreement with SVB.

Other income (expense), net

Other expense of approximately $2,000 for the six-month period ended June 30, 2016 was primarily related to state franchise taxes. Other expense of approximately $33,000 in the second quarter of 2015 was primarily attributable to state franchise taxes paid. Other income of approximately $108,000 for the six-month period ended June 30, 2015 was primarily attributable to the gain on sale of StemCells Rhode Island property offset by state franchise taxes paid.

Liquidity and Capital Resources

Since StemCells inception, StemCells has financed its operations through the sale of common and preferred stock, the issuance of long-term debt and capitalized lease obligations, credit facilities, revenue from collaborative agreements, research grants, license fees, and interest income.

	June 30, 2016	December 31, 2015	Change $	Change %
Cash and cash equivalents	$ 2,448,761	$ 12,110,565	$ (9,661,804)	(80)%

In summary, our cash flows were:

	Six months ended June 30, 2016	Six months ended June 30, 2015	Change in 2016 versus 2015 $	Change in 2016 versus 2015 %
Net cash used in operating activities	$ (17,634,514)	$ (16,484,500)	$ (1,150,014)	7%
Net cash used in investing activities	$ (15,434)	$ (407,600)	$ 392,166	(96)%
Net cash provided by financing activities	$ 7,988,453	$ 21,847,407	$ (13,858,954)	(63)%

Net Cash Used in Operating Activities

Net cash used in operating activities in the six-month period ended June 30, 2016 increased by approximately $1,150,000, or 15%, when compared to the same period of 2015. Cash used in operating activities is primarily driven by StemCells net loss as adjusted for non-cash charges and differences in the timing of operating cash flows.

Net Cash Used in Investing Activities

Net cash used in investing activities of approximately $15,000 in the six-month period ended June 30, 2016 was primarily for the purchase of lab equipment. Net cash used for investing activities of approximately $408,000 in the six-month period ended June 30, 2015 was primarily related to the purchase of lab equipment for approximately $557,000, offset by receipts of approximately $149,000 from the sale of StemCells property in Rhode Island.

Net Cash Provided by Financing Activities

Net cash of approximately $7,988,000 provided by financing activities in the six-month period ended June 30, 2016 was primarily attributable to net proceeds (net of offering expenses underwriting discounts and commissions) received from a financing transaction in March 2016, offset by repayment of loan, lease and other obligations. Net cash of approximately $21,847,000 provided by financing activities in the six-month period

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ended June 30, 2016 was primarily attributable to net proceeds of approximately $24,943,000 from a financing transaction in April 2015, partially offset by the repayment of loan, lease and other obligations.

StemCells has incurred significant operating losses and negative cash flows since inception. StemCells had not achieved profitability and may not be able to realize sufficient revenue to achieve or sustain profitability in the future. StemCells does not expect to be profitable in the next several years, but rather expects to incur additional operating losses. StemCells has limited liquidity and capital resources and must obtain significant additional capital resources in order to continue operations. StemCells had relied on cash balances and proceeds from equity and debt offerings, proceeds from the transfer or sale of StemCells intellectual property rights, equipment, facilities or investments, and government grants and funding from collaborative arrangements, to fund StemCells operations.

As of August 1, 2016, StemCells had cash and cash equivalents of approximately $900,000 and approximately $3 million under this universal shelf registration statement available for issuing debt or equity securities. If StemCells plans to liquidate the Company, StemCells cannot determine with certainty the amount of any liquidating distribution to its stockholders and it is possible that there will be no liquidating distribution to stockholders. The amount of any cash distributed to StemCells stockholders will depend upon, among other things, StemCells current liquid assets offset by StemCells known and unknown liabilities as well as operating expenses associated with the wind down.

Commitments

See Note 9, Commitments and Contingencies in the notes to condensed consolidated financial statements of Part I, Item 1 of StemCells Form 10-Q for further information.

Off-Balance Sheet Arrangements

StemCells has certain contractual arrangements that create potential risk for it and are not recognized in StemCells Condensed Consolidated Balance Sheets. Discussed below are those off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on StemCells financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Operating leases

StemCells leased various real properties under operating leases that generally require StemCells to pay taxes, insurance, maintenance, and minimum lease payments. Some of StemCells leases have options to renew.

Operating Leases California

In December 2010, StemCells entered into a commercial lease agreement with BMR-Gateway Boulevard LLC (BMR), as landlord, for office and research space at BMR s Pacific Research Center in Newark, California. The initial term of the lease was approximately eleven and one-half years and includes escalating rent payments which StemCells recognized as lease operating expense on a straight-line basis. StemCells was expected to pay approximately $17,869,000 in aggregate as rent over the term of the lease to BMR. In May 30, 2016, StemCells Board of Directors approved a plan to wind down StemCells current operations, having considered the decision to terminate the Pathway Study, StemCells available strategic alternatives and StemCells current cash position. As part of the wind down of StemCells operations, StemCells terminated its commercial lease agreement with BMR as of August 1, 2016, by agreeing to pay a lease termination fee of approximately $800,000 and forfeit StemCells security deposit of approximately $333,000 with BMR.

In March 2013, StemCells entered into a commercial lease agreement with Prologis, L.P. (Prologis), as landlord, for office and research space in Sunnyvale, California. The facility was for operations that supported

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StemCells clinical development activities. The initial term of the lease was ten years and included escalating rent payments which StemCells recognized as lease operating expense on a straight-line basis. StemCells was expected to pay approximately $3,497,000 in aggregate rent over the term of the lease. As part of the lease, Prologis had agreed to provide StemCells financial allowances to build initial tenant improvements, subject to customary terms and conditions relating to landlord-funded tenant improvements. The tenant improvements were recorded as leasehold improvement assets and amortized over the term of the lease. In May 30, 2016, StemCells Board of Directors approved a plan to wind down current operations, having considered the decision to terminate the Pathway Study, its available strategic alternatives and StemCells current cash position. As part of the wind down of StemCells operations, StemCells terminated its commercial lease agreement with Prologis by having the existing lease assumed by an unrelated third party, effective as of August 1, 2016. StemCells is not expected to pay a lease termination fee and expects to receive a refund of the security deposit of $40,000 from Prologis.

With the exception of the operating leases discussed above, StemCells has not entered into any significant off balance sheet financial arrangements and has not established any special purpose entities. StemCells has not guaranteed any debts or commitments of other entities or entered into any options on non-financial assets.

Contractual Obligations

StemCells has periodically entered into licensing agreements with third parties to obtain exclusive or non-exclusive licenses for certain technologies. The terms of certain of these agreements require StemCells to pay future milestone payments based upon achievement of certain developmental, regulatory or commercial milestones. StemCells does not anticipate making any milestone payments under any of its licensing agreements for 2016. Milestone payments beyond fiscal year 2016 cannot be predicted or estimated, due to the uncertainty of achieving the required developmental, regulatory or commercial milestones.

StemCells does not have any material unconditional purchase obligations or commercial commitments related to capital expenditures, clinical development, clinical manufacturing, or other external services contracts at June 30, 2016.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK OF STEMCELLS

Interest Rate and Credit Risks

StemCells interest-bearing assets, or interest-bearing portfolio, consist of cash and cash equivalents. Our interest income is sensitive to changes in the general level of interest rates, primarily U.S. interest rates. At June 30, 2016, StemCells cash equivalents were primarily composed of money market accounts comprised of U.S. Treasury debt securities.

Equity Security and Foreign Exchange Risks

At June 30, 2016, the remaining assets and liabilities of StemCells UK subsidiaries included in StemCells Consolidated Balance Sheets were not significant because StemCells is currently not subject to material foreign currency exchange risk with respect to revenue transactions and cash balances, and StemCells has not to date entered into any hedging contracts.

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MICROBOT BUSINESS

Overview

Microbot Medical Ltd., or Microbot, was incorporated on November 10, 2010 under the Israel Business Corporations Act. Microbot is a pre-clinical medical device company specializing in the research, design and development of next generation micro-robotics assisted medical technologies targeting the minimally invasive surgery space. Microbot is primarily focused on leveraging its micro-robotic technologies with the goal of improving surgical outcomes for patients.

Microbot is currently developing its first two product candidates: the Self Cleaning Shunt, or SCS, for the treatment of hydrocephalus and Normal Pressure Hydrocephalus, or NPH; and TipCAT, a self-propelling, semi-disposable endoscope that is being developed initially for use in colonoscopy procedures. Microbot s product candidates are being designed to bring greater functionality to conventional medical devices and to reduce the known risks associated with such devices. Microbot is currently aiming to complete pre-clinical or clinical data collection for both product candidates within the next 24 months and is targeting approval or clearance for SCS by late 2018.

Microbot currently holds an intellectual property portfolio that comprises nine patent families, which include eight patents granted in the United States, eleven patents granted outside the United States, and 17 patent applications pending worldwide, with other patent applications under development, as well as an exclusive license to key components of its technology.

Industry Overview

Shunt Systems

Hydrocephalus is a medical condition in which there is an abnormal accumulation of cerebrospinal fluid, or CSF, in the brain that can cause increased intracranial pressure. It is estimated that one in every 500 babies are born with hydrocephalus, and over 1,000,000 people in the United States currently live with hydrocephalus.

Symptoms of hydrocephalus vary with age, disease progression and individual tolerance to the condition, but they can include convulsion, tunnel vision, mental disability or dementia-like symptoms and even death. Normal Pressure Hypocephalus (NPH) is a type of hydrocephalus that usually occurs in older adults. NPH is generally treated as distinct from other types of hydrocephalus because it develops slowly over time. In NPH, the drainage of CSF is blocked gradually and the excess fluid builds up slowly. This slow accumulation means that the fluid pressure may not be as high as in other types of hydrocephalus. It is estimated that more than 700,000 Americans have NPH, but less than 20% receive an appropriate diagnosis.

Hydrocephalus is most often treated by the surgical insertion of a shunt system. The shunt system diverts the flow of CSF from the brain s ventricles (or the lumbar subarachnoid space) to another part of the body where the fluid can be more readily absorbed. Hydrocephalus shunt designs have changed little since their introduction in the 1950s. A shunt system typically consists of three parts: the distal tubing or shunt (a flexible and sturdy plastic tube), the ventricular catheter (the proximal catheter), and a valve. The end of the shunt system with the proximal catheter is placed in the ventricles (within the CSF) and the distal catheter is placed in the site of the body where the CSF can be drained. A valve is located along the shunt to maintain and regulate the rate of CSF flow. Current systems can be created from separate components or bought as complete units.

The treatment of hydrocephalus with existing shunt systems often includes complications as well. For example, approximately 50% of shunts used in the pediatric population fail within two years of placement and repeated neurosurgical operations are often required. Ventricular catheter blockage, or occlusions, is by far the most frequent event that results in shunt failure. Shunt occlusion occurs when there is a partial or complete blockage of the shunt that causes it to function intermittently or not at all. Such a shunt blockage can be caused

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by the accumulation of blood cells, tissue, or bacteria in any part of the shunt system. In the event of shunt occlusion, CSF begins to accumulate in the brain or lumbar region again and the symptoms of untreated hydrocephalus can reappear until a shunt replacement surgery is performed.

Although several companies are active in the field of hydrocephalus treatment and the manufacturing of shunt systems and shunt components, Microbot believes that the majority of those companies are focusing on the development of valves. The development of a smart shunt a shunt that could provide for weaning form shunt dependency or increase personalized control through advanced control algorithms, that could provide data to the physician on patient conditions and shunt function with sensor based controls, or correct the high failure rate of existing shunt systems is for the most part at an academic and conceptual level only. Reports of smart shunt technologies are typically focused on a subset of components with remaining factors left unspecified, such as hardware, control algorithms or power management. Microbot does not believe that a smart shunt has been developed to date. Because of the limited innovation in this area, Microbot believes an opportunity exists to provide patients suffering from hydrocephalus or NPH with a more effective instrument for treating their condition.

Endoscopic Equipment

Endoscopes are medical devices used to look inside a body cavity or organ with minimally invasive surgery. The North American flexible endoscopes market was valued at $1.27 billion in 2013, and is expected to reach $1.91 billion by 2018, at a CAGR of 8.5% during the period 2013 to 2018.

Colonoscopy is a procedure that allows a physician to examine the colon using an endoscope. It is a commonly performed procedure for the diagnosis and treatment of a range of conditions, including for the screening and surveillance of colorectal neoplasia, or colorectal cancer. Annually, between 15 and 20 million endoscopy procedures are conducted in the United States with reusable endoscope devices to screen various sections of a patient s gastrointestinal, or GI, tract. However, according to data from the American Cancer Society, it is estimated that over 49,000 Americans will die from colorectal cancer and 95,000 new cases of colon cancer will be diagnosed in 2016. It is the third leading cause of cancer deaths in spite of being highly preventable with early identification and removal of colorectal adenomas, or polyps. Colonoscopy with removal of colorectal polyps has been shown to be the most effective way of preventing colorectal cancer. And colonoscopy is generally considered the gold standard for the detection and treatment of adenomas. However, using current colonoscopic technology, approximately 30% of polyps are missed. In addition, the technique remains underutilized less than 50% of eligible Americans, based on guidelines established by organizations including the American Cancer Society, United States Preventive Services Task Force, and U.S. Multi-Society Task Force on Colorectal Cancer, have undergone screening, with more than 45% of colon cancers being diagnosed at a time when the cancer has become incurable. This reluctance can be linked to patients general discomfort associated with the colonoscopy screening procedure, due to the use of mechanical force to insert the endoscope into the colon. The procedure is widely perceived to be uncomfortable, and it also can sometimes damage or perforate the bowel wall.

Colonoscopy techniques that improve the Adenoma Detection Rate, or ADR, and reduce patient discomfort could optimize the potential of colonoscopy for the prevention of colorectal cancer. Microbot believes that it has the potential to develop a robotic endoscope product that addresses this issue of patient discomfort, which it believes will improve patients willingness to get this important screening test with the additional benefit of providing a new tool to health care practitioners for use in the identification and treatment of colorectal polyps.

Microbot s Product Pipeline

Self-Cleaning Shunt (SCS)

The Self-Cleaning Shunt, or SCS, device is designed to act as the ventricular catheter portion of a CSF shunt system that is used to relieve hydrocephalus and NPH. It is designed to work as an alternative to any ventricular catheter options currently on the market and to connect to all existing shunt system valves currently on the

market, therefore, the successful commercialization of the SCS is not dependent on any single shunt system. Initially, Microbot expects the SCS device to be an aftermarket purchase that would be deployed to modify existing products by the end user. Microbot believes that the use of its SCS device will reduce, and potentially eliminate, shunt occlusions, and by doing so Microbot believes its SCS has the potential to become the gold-standard ventricular shunt in the treatment of Hydrocephalus and NPH.

The SCS device embeds an internal robotic cleaning mechanism in the lumen, or inside space, of the ventricular catheter which prevents cell accumulation and tissue ingrowth into the catheter. The SCS device consists of a silicone tube with a perforated titanium tip, which connects to a standard shunt valve at its distal end. The internal cleaning mechanism is embedded in the lumen of the titanium tip. Once activated, the cleaning mechanism keeps tissue from entering the catheter perforations while maintaining the CSF flow in the ventricular catheter.

The internal cleaning mechanism of the SCS device is activated by means of an induced magnetic field, which is currently designed to be externally generated by the patient through a user-friendly headset that transmits the magnetic field at a pre-determined frequency and operating sequence protocol. The magnetic field that is created by the headset is then captured by a flexible coil and circuit board that is placed just under the patient s scalp in the location where the valve is located. The circuit board assembly converts the magnetic field into the power necessary to activate the cleaning mechanism within the proximal part of the ventricular catheter.

Microbot has completed the development of an SCS prototype and is currently completing the safety testing, general proof of concept testing and performance testing for the device, which Microbot began in mid-2013. Microbot had a pre-submission meeting with the FDA in early 2014, and has been working closely with Washington University in St. Louis to develop the protocol for and to execute the necessary animal study. Microbot expects the animal study to start by the end of 2016. Upon the completion of animal studies, Microbot may conduct clinical trials if they are requested by the FDA or if Microbot decides that the data from such trials would improve the marketability of the product candidate. Microbot believes that the first generation of its SCS device should receive regulatory approval or clearance from FDA by late 2018. The proposed indication for use of the SCS device would be for the treatment of hydrocephalus as a component of a shunt system when draining or shunting of CSF is indicated.

Microbot may also conduct clinical trials for the SCS in other countries where such trials are necessary for Microbot to sell its SCS device in such country s market, although it has no current plans to do so.

TipCAT

The TipCAT is a semi-disposable, flexible, self-propelled endoscope. A mechanism comprising a series of interconnected balloons at the device s tip provides the TipCAT with its forward locomotion capability. The device has the capability to self-propel within natural tubular lumens such as the colon, blood vessels, and the urinary tract. The TipCAT is designed to be fully-equipped with a contemporary endoscope, including a high-quality camera, steering capability and a standard working channel for treatments. The TipCAT thus offers functionality and visualization features equivalent to modern endoscopes, along with unique advantages associated with its physiologically adapted self-propelling mechanism, flexibility, and design.

The TipCAT consists of two parts:

A disposable self-propulsion module, which is a series of interconnected, sequentially inflatable balloons constructed on an inner tube (i.e., the working channel); and

A re-usable module isolated from contact with the tissue/body fluids, containing a camera, LED lighting and a steering system.

In the self-propulsion module, the air to inflate the balloons is supplied from a single channel. The sequential inflating and deflating of the balloons creates an inchworm-like forward motion. Therefore, unlike standard endoscopes, the TipCAT does not need to be mechanically forced into the patient s lumen using

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external pressure; rather, it will gently advance itself through the organ s anatomy. As a result, the TipCAT is designed to be able to reach every part of the lumen under examination regardless of the topography, be less operator dependent, and greatly reduce the likelihood of damage to lumen structure.

Furthermore, Microbot believes that use of the TipCAT will improve ADR by straightening the intestinal topography, smoothing colon topography and improving tissue visualization. In addition, by incorporating the TipCAT in therapeutic procedures, Microbot believes that the inflated balloons will provide the additional benefits of assisting the physician in centralizing endoscope optics and allowing for the colonoscope to be secured in each treatment position throughout the procedure, resulting in more efficient and effective procedures.

The TipCAT is also designed such that only disposable parts are in direct contact with the lumen tissue, which should eliminate the risk of cross contamination between patients and the need for post-use reprocessing. Reducing dependence on reprocessing procedures is important from a regulatory perspective because safety issues related to the reprocessing of reusable medical devices are a growing concern for regulatory authorities.

A TipCAT prototype was shown to self-propel and self-navigate in curved plastic pipes and curved ex-vivo colon. In addition, in its first feasibility study, the prototype device was tested in a live animal experiment and successfully self-propelled through segments of the animal s colon, with no post-procedural damage. All tests were conducted at AMIT (Alfred Mann Institute of Technology at the Technion), prior to the licensing of TipCAT by Microbot. Microbot is currently reviewing the design and general proof of concept of the TipCAT and working closely with experts in the field to define the optimal design. Microbot expects animal studies for this device to begin in 2017. Upon the completion of animal studies, Microbot may conduct clinical trials if they are requested by the FDA or if Microbot decides that the data from such trials would improve the marketability of the product candidate. Regulatory approval or clearance for marketing the TipCAT colonoscope in the United States is targeted to occur soon after the applicable animal or clinical trials are completed, depending on when the applicable premarket submission is finalized and filed with FDA, and Microbot s ability to raise money and conduct the necessary trials for approval.

Microbot also plans to further develop the TipCAT for application other diagnostic and therapeutic endoscopic procedures outside of colonoscopy, such as Chronic Total Occlusion, or CTO, urethroscopy and catheterization.

Microbot may conduct clinical trials for the TipCAT in other countries where such trials are necessary for Microbot to sell its TipCAT device in such country s market, although it has no current plans to do so.

Strategy

Microbot s goal is to generate sales of its products, once they have received regulatory approval, by establishing SCS and TipCAT devices as the standard-of-care in the eyes of doctors, surgeons, patients and medical facilities, as well as getting the support of payors and insurance companies. Microbot believes that it can achieve this objective by working with hospitals to demonstrate the key benefits of its products. Microbot s strategy includes the following key elements:

- **Continue to refine existing product candidates and develop additional micro-robotic solutions**. As Microbot prepares to bring its initial product candidates through pre-clinical and clinical trials, if necessary, and eventually to market, it continues to focus on improving its product candidates to respond to clinical data and patient and physician feedback. Microbot also expects to continue to innovate in the micro-robotics field by continuing to find ways of using its technology to solve unmet needs, with the overarching goal of providing a safer, more effective and more efficient surgical environment for patients and physicians.

Establish and leverage relationships with key institutions and leading clinicians. Microbot intends to develop relationships with a relatively small number of hospitals and clinics through its clinical

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stage. Microbot s objective will be to maintain clinical focus with such hospitals and clinics so as to establish the SCS and TipCAT as the standard of care in such institutions for their respective procedures. Microbot also expects to identify key clinicians in the hydrocephalus and colonoscopy specialties with the expectation that such clinical focus will accelerate the adoption of its candidate products.

Invest in research and development. Microbot s most significant expense has historically been research and development, and Microbot expects that this will continue in the future, including expenses it expects to incur to improve on its prototype products in order to respond to clinical data, to develop additional applications using its technologies and to develop future product candidates.

Explore partnerships for the introduction of Microbot s products. Microbot intends to focus its marketing and sales efforts initially on pursuing collaborations with global medical device companies that have established sales and distribution networks. Microbot seeks to enter collaborations and partnerships with strategic players that offer synergies with Microbot s product candidates and expertise.

Seek additional IP and technologies to complement and strengthen Microbot s current IP portfolio. Microbot intends to continue exploring new technologies, IP and know-how to add to its current portfolio and to allow Microbot to enter new spaces and strengthen its overall product portfolio.

SCS Opportunities

The SCS is designed to prevent shunt occlusions in hydrocephalus and NPH patients who have undergone or are undergoing the surgical insertion of a shunt system. For purposes of its marketing strategy, Microbot has split the market for shunt systems into two sub-markets:

Primary shunt placement; and

Shunt replacement.

Microbot s SCS device is universal (meaning that it is designed to be attachable to any valve on the market); therefore, Microbot s initial go-to-market strategy is the development of strategic partnerships with leading global medical device companies with ready sales and distribution channels. Outside of a strategic partnership, it is most likely that Microbot s SCS product will be initially used in shunt replacement surgeries to replace occluded ventricular catheters. Accordingly, Microbot intends to establish key hospital and clinic relationships that will allow it to diffuse the technology among experts and other stakeholders. Microbot is also planning to apply for the SCS device to be covered under the current reimbursement codes in the United States for use in hydrocephalus and NPH shunt procedures.

TipCAT Opportunities

Microbot expects that its initial go-to-market strategy for the TipCAT will be to establish key hospital and clinic relationships in the field of colonoscopy that will allow Microbot to introduce and then diffuse the technology among colonoscopy experts and other stakeholders. Generally, Microbot expects the hospitals and clinics selected for the TipCAT clinical trials to also start using the product commercially, which will help to promote and support market uptake of the TipCAT product. Because Microbot expects the use of the TipCAT to increase the number of

colonoscopy procedures that can be performed at any such facility, Microbot will seek to promote the technology among the doctors and experts involved in the distribution and buying groups within such selected partner hospitals.

Competition

SCS Competitive Landscape

Several academic research groups, such as at the New Jersey Institute of Technology, are currently researching sensing and obstruction-resistant catheter designs, and the Smart Sensors and Integrated Microsystems (SSIM)

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Program at Wayne State University has publicized that it is engaging in smart shunt development activity. However, based on its knowledge of the patented technologies, Microbot believes that these technologies are still early in the research and development cycle. The SCS also faces non-direct competition from Aqueduct Neurosciences, Inc., which is developing a non-shunt, electro-mechanical technology platform to control the draining of cerebrospinal fluid.

Microbot does not expect its SCS device to directly compete against shunt systems currently available in the market. The SCS device is designed to replace a component of existing shunt systems and is expected to be an aftermarket purchase that would be used to modify existing products by the end user. However, there can be no assurance that Microbot s product candidate will be accepted by the shunt market as an alternative component.

TipCAT Competitive Landscape

The market for endoscopy products is highly competitive with several players operating both at a global and regional level. The leading players in the colonoscopy space are Pentax, Fuji and Olympus, which dominate the U.S. market for reusable colonoscopes. However, Microbot believes that the most relevant competitors to TipCAT are smaller companies such as GI View and SMART Medical Systems, which produce disposable, self-propelled colonoscopes.

GI View produces a colonoscope with 360° omni-directional visualization and offers self-propelled intubation created using balloons and low pressure CO_2 gas. In addition, the GI View product is single use and disposable.

SMART Medical Systems product, which, according to publicly available information is being commercialized by Pentax, is introduced by a physician through a standard colonoscope s tool channel and uses its balloon technology to anchor the bowel, which enables the colonoscope to be maneuvered beyond challenging lumen sections.

Microbot believes the TipCAT can successfully compete against its relevant competitors in that it offers all of the following attributes:

- the ability to have varied dimensions during insertion and any subsequent point of a procedure, so as to accommodate the particular diameters of the organ at any moment, allows for the straightening of an organ s topography and improved visualization;
- disposability, which protects against cross-contamination;
- a working channel for therapeutic interventions (and additional visualization capabilities);
- lower cost; and
- a self-propelling mechanism, allowing for passage through challenging anatomical structures while eliminating tissue trauma.

Some of Microbot s competitors currently have significantly greater resources than Microbot does; have established relationships with healthcare professionals, customers and third-party payors; and have long-term contracts with group

purchasing organizations in the United States. In addition, many of Microbot s competitors have established distributor networks, greater resources for product development, sales and marketing, additional lines of products and the ability to offer financial incentives such as rebates, bundled products or discounts on other product lines that Microbot cannot provide.

Microbot s products could also be rendered obsolete or uneconomical by technological advances developed in the future by existing or new competitors.

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Intellectual Property

General

Microbot is currently developing its first two product candidates, the SCS and TipCAT based on technological platforms licensed from TRDF, as further discussed below, and Microbot plans to develop other micro-robotic solutions through internal research and development to strengthen its intellectual property position, and continue exploring strategic collaborations and accretive acquisition opportunities. Microbot currently holds an intellectual property portfolio that includes 9 patent families, which include 8 patents granted in the US, 11 patents granted outside the US, and 17 patent applications pending worldwide, with other patent applications under development.

Microbot relies on intellectual property licensed or developed, including patents, trade secrets, technical innovations, laws of unfair competition and various licensing agreements to provide its future growth and to build its competitive position. As Microbot continues to expand its intellectual property portfolio, it is critical for Microbot to continue to invest in filing patent applications to protect its technology, inventions, and improvements.

Microbot relies on a combination of patents, trade secret, copyright and other intellectual property rights and measures to aggressively protect its intellectual property. It also relies on other forms of intellectual property, including trade secrets and know-how, to maintain its competitive position. Microbot requires its employees and consultants to execute confidentiality agreements in connection with their employment or consulting relationships with Microbot. Microbot also requires its employees and consultants who work on its product candidates to agree to disclose and assign to Microbot all inventions conceived during the term of their service, while using Microbot property, or which relates to Microbot s business.

Patent applications in the United States and in foreign countries are maintained in secrecy for a period of time after filing, which results in a delay between the actual discoveries and the filing of related patent applications and the time when discoveries are published in scientific and patent literature. Patents issued and patent applications filed relating to medical devices are numerous, and there can be no assurance that current and potential competitors and other third parties have not filed or in the future will not file applications for, or have not received or in the future will not receive, patents or obtain additional proprietary rights relating to product candidates, products, devices or processes used or proposed to be used by Microbot. Microbot believes that the technologies it employs in its products and systems do not infringe the valid claims of any third party patents. There can be no assurance, however, that third parties will not seek to assert that Microbot devices and systems infringe their patents or seek to expand their patent claims to cover aspects of Microbot s products and systems.

The medical device industry in general has been characterized by substantial litigation regarding patents and other intellectual property rights. Any such claims, regardless of their merit, could be time-consuming and expensive to respond to and could divert Microbot s technical and management personnel. Microbot may be involved in litigation to defend against claims of infringement by other patent holders, to enforce patents issued to Microbot, or to protect Microbot s trade secrets. If any relevant claims of third-party patents are upheld as valid and enforceable in any litigation or administrative proceeding, Microbot could be prevented from practicing the subject matter claimed in such patents, or would be required to obtain licenses from the patent owners of each such patent, or to redesign Microbot s products, devices or processes to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be available on terms acceptable to Microbot or Microbot would be successful in any attempt to redesign products or processes to avoid infringement. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent Microbot from manufacturing and selling its products.

Issued U.S. patents which cover Microbot s product candidates will expire between 2026 and 2031, excluding any patent term extensions that might be available following the grant of marketing authorization. Issued patents outside of the United States directed to Microbot s product candidates will expire between 2026 and 2032.

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License Agreement with the Technion

In June 2012, Microbot entered into a license agreement with Technion Research and Development Foundation Ltd., or TRDF, the technology transfer subsidiary of the Technion Institute of Technology, pursuant to which it obtained an exclusive, worldwide, royalty-bearing, sub-licensable license to certain patents and inventions relating to the SCS and TipCAT technology platforms and invented by Professor Shoham and in certain circumstances other TRDF-related persons. Pursuant to the terms of the license agreement, in order to maintain the license with respect to each platform, Microbot must use commercially reasonable efforts to develop products covered by the license, including meeting certain agreed upon development milestones. The milestones for SCS include commencing initial studies in humans by December 2018 and commencing a full clinical trial, if necessary, by December 2019. The milestones for TipCAT include commencing initial studies in humans by December 2018 and commencing a full clinical trial, if necessary, by December 2020. Failure to meet any development milestone will give TRDF the right to terminate the license with respect to the technology underlying the missed milestone. Although Microbot expects to meet the milestone requirements, TRDF has demonstrated flexibility with respect to amending the terms of the license to extend the milestone dates.

As partial consideration for the grant of the licenses under the agreement, Microbot issued a number of shares to TRDF equal to 3% of its issued and outstanding shares at such time on a fully diluted basis. Such shares were initially subject to antidilution protections but are no longer subject to adjustment. In addition, as partial consideration for the licenses granted, Microbot agreed to pay TRDF royalties of between 1.5% and 3.0% of net sales of products covered by the licenses, subject to certain reductions, and certain percentages of amounts received by Microbot in the event of sublicensing.

In the case of termination of the license by Microbot without cause or by TRDF for cause, TRDF has the right to receive a non-exclusive license from Microbot with respect to improvements to the licensed technologies made by Microbot. In such cases, TRDF would pay a royalty of 10% of the income received by TRDF in connection its sublicensing of such patent right and related intellectual property. If the license from TRDF were to be terminated with respect with either of the technology platforms underlying the SCS or the TipCAT, Microbot would no longer be able to continue its development of the related product candidate. However, Microbot believes that its current intellectual property portfolio, and its ongoing efforts to expand into other micro-robotic surgical technologies, will give it the flexibility to shift its resources towards developing and commercializing related products.

Research and Development

Microbot s research and development programs are generally pursued by engineers and scientists employed by Microbot in its offices in Israel on a full-time basis or as consultants, or through partnerships with industry leaders in manufacturing and design and researchers in academia. Microbot is also working with subcontractors in developing specific components of its technologies.

The primary objectives of Microbot s research and development efforts are to continue to introduce incremental enhancements to the capabilities of its candidate products and to advance the development of proposed products.

Microbot has received funds from the Office of the Chief Scientist in Israel, or OCS, for research and development activities. Microbot received a grant from the OCS in 2012, which grant reimbursed Microbot for 50% of its research and development expenses, up to $764,466. This first grant from the OCS ended in 2014. After the expiration of the first grant, Microbot received approval for an additional grant from the OCS which reimbursed Microbot for 50% of its research and development expenses for the period from May 1, 2014 through September 30, 2015, up to $924,166. After the expiration of the second grant, Microbot received an approval for a third grant from the Chief Scientist of

Israel which reimbursed Microbot for 50% of its research and development expenses for the period from May 1, 2016 through April 30, 2017, up to $1,026,050. Microbot expects to continue to access government funding in the future.

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For the fiscal year ended December 31, 2015, Microbot incurred research and development expenses of $822,759 compared to research and development expenses of $836,698 for the fiscal year ended December 31, 2014.

Microbot has already made plans to develop a second version of its SCS device that will have an embedded controller and battery. This alternative design will allow the cleaning mechanism to be automatically activated, without the need for the patient s involvement in the activation process.

Manufacturing

Microbot does not have any manufacturing facilities or manufacturing personnel. Microbot currently relies, and expects to continue to rely, on third parties for the manufacturing of its product candidates for preclinical and clinical testing, as well as for commercial manufacturing if its product candidates receive marketing approval.

Commercialization

Microbot has not yet established a sales, marketing or product distribution infrastructure for its product candidates, which are still in development stages. Microbot plans to access the U.S. markets for hydrocephalus, NPH, and colonoscopy with its initial device offerings through strategic partnerships but may develop its own focused, specialized sales force or distribution channels once it has several commercialized products in its portfolio. Microbot has not yet developed a commercial strategy outside of the United States.

Government Regulation

General

Microbot s medical technology products and operations are subject to extensive regulation in the United States and other countries. Most notably, if Microbot seeks to sell its products in the United States, its products will be subject to the Federal Food, Drug, and Cosmetic Act (FDCA) as implemented and enforced by the U.S. Food and Drug Administration (FDA). The FDA regulates the development, bench and clinical testing, manufacturing, labeling, storage, record-keeping, promotion, marketing, sales, distribution and post-market support and reporting of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. Regulatory policy affecting its products can change at any time.

Advertising and promotion of medical devices in the United States, in addition to being regulated by the FDA, are also regulated by the Federal Trade Commission and by state regulatory and enforcement authorities. Recently, promotional activities for FDA-regulated products of other companies have been the subject of enforcement action brought under healthcare reimbursement laws and consumer protection statutes. In addition, under the federal Lanham Act and similar state laws, competitors and others can initiate litigation relating to advertising claims.

Foreign countries where Microbot wishes to sell its products may require similar or more onerous approvals to manufacture or market its products. Government agencies in those countries also enforce laws and regulations that govern the development, testing, manufacturing, labeling, advertising, marketing and distribution, and market surveillance of medical device products. These regulatory requirements can change rapidly with relatively short notice.

Other regulations Microbot encounters in the United States and in other jurisdictions are the regulations that are common to all businesses, such as employment legislation, implied warranty laws, and environmental, health and safety standards, to the extent applicable. In the future, Microbot will also encounter industry-specific government

regulations that would govern its products, if and when they are developed for commercial use.

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U.S. Regulation

The FDA governs the following activities that Microbot performs, will perform, upon the clearance or approval of its product candidates, or that are performed on its behalf, to ensure that medical products distributed domestically or exported internationally are safe and effective for their intended uses:

- product design, and development;
- product safety, testing, labeling and storage;
- record keeping procedures; and
- product marketing.

There are numerous FDA regulatory requirements governing the approval or clearance and subsequent commercial marketing of Microbot s products. These include:

- the timely submission of product listing and establishment registration information, along with associated establishment user fees;
- continued compliance with the Quality System Regulation, or QSR, which require specification developers and manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance or approval of product modifications that could significantly affect the safety or effectiveness of the device or that would constitute a major change in intended use;
- Medical Device Reporting regulations (MDR), which require that manufacturers keep detailed records of investigations or complaints against their devices and to report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur;
- adequate use of the Corrective and Preventive Actions process to identify and correct or prevent significant systemic failures of products or processes or in trends which suggest same;

post-approval restrictions or conditions, including post-approval study commitments;

post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device; and

notices of correction or removal and recall regulations.

Unless an exemption applies, before Microbot can commercially distribute medical devices in the United States, Microbot must obtain, depending on the classification of the device, either prior 510(k) clearance, 510(k) de-novo clearance or premarket approval (PMA), from the FDA. The FDA classifies medical devices into one of three classes based on the degree of risk associated with each medical device and the extent of regulatory controls needed to ensure the device s safety and effectiveness:

Class I devices, which are low risk and subject to only general controls (e.g., registration and listing, medical device labeling compliance, MDRs, Quality System Regulations, and prohibitions against adulteration and misbranding) and, in some cases, to the 510(k) premarket clearance requirements;

Class II devices, which are moderate risk and generally require 510(k) or 510(k) de-novo premarket clearance before they may be commercially marketed in the United States as well as general controls and potentially special controls like performance standards or specific labeling requirements; and

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Class III devices, which are devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a predicate device. Class III devices generally require the submission and approval of a PMA supported by clinical trial data.

Microbot expect the medical products in its pipeline currently to be classified as Class II. Class II devices are those for which general controls alone are insufficient to provide reasonable assurance of safety and effectiveness and there is sufficient information to establish special controls. Special controls can include performance standards, post-market surveillance, patient histories and FDA guidance documents. Premarket review and clearance by the FDA for these devices is generally accomplished through the 510(k) or 510(k) de-novo premarket notification process. As part of the 510(k) or 510(k) de-novo notification process, FDA may require the following:

Development of comprehensive product description and indications for use.

Completion of extensive preclinical tests and preclinical animal studies, performed in accordance with the FDA s Good Laboratory Practice (GLP) regulations.

Comprehensive review of predicate devices and development of data supporting the new product s substantial equivalence to one or more predicate devices.

If appropriate and required, certain types of clinical trials (IDE submission and approval may be required for conducting a clinical trial in the US).

Clinical trials involve use of the medical device on human subjects under the supervision of qualified investigators in accordance with current Good Clinical Practices (GCPs), including the requirement that all research subjects provide informed consent for their participation in the clinical study. A written protocol with predefined end points, an appropriate sample size and pre-determined patient inclusion and exclusion criteria, is required before initiating and conducting a clinical trial. All clinical investigations of devices to determine safety and effectiveness must be conducted in accordance with the FDA s Investigational device Exemption, or IDE, regulations that among other things, govern investigational device labeling, prohibit promotion of the investigational device, and specify recordkeeping, reporting and monitoring responsibilities of study sponsors and study investigators. If the device presents a significant risk, as defined by the FDA, the agency requires the device sponsor to submit an IDE application, which must become effective prior to commencing human clinical trials. The IDE will automatically become effective 30 days after receipt by the FDA, unless the FDA denies the application or notifies the company that the investigation is on hold and may not begin. If the FDA determines that there are deficiencies or other concerns with an IDE that requires modification, the FDA may permit a clinical trial to proceed under a conditional approval. In addition, the study must be approved by, and conducted under the oversight of, an Institutional Review Board (IRB) for each clinical site. If the device presents a non-significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate approval from the FDA, but it must still follow abbreviated IDE requirements, such as monitoring the investigation, ensuring that the investigators obtain informed consent, and labeling and record-keeping requirements.

Assuming successful completion of all required testing, a detailed 510(k) premarket notification or 510(k) de-novo is submitted to the FDA requesting clearance to market the product. The notification includes all

relevant data from pertinent preclinical and clinical trials, together with detailed information relating to the product s manufacturing controls and proposed labeling, and other relevant documentation.

A 510(k) clearance letter from the FDA will authorize commercial marketing of the device for one or more specific indications for use.

After 510(k) clearance, Microbot will be required to comply with a number of post-clearance requirements, including, but not limited to, Medical Device Reporting and complaint handling, and, if

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applicable, reporting of corrective actions. Also, quality control and manufacturing procedures must continue to conform to QSRs. The FDA periodically inspects manufacturing facilities to assess compliance with QSRs, which impose extensive procedural, substantive, and record keeping requirements on medical device manufacturers. In addition, changes to the manufacturing process are strictly regulated, and, depending on the change, validation activities may need to be performed. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with QSRs and other types of regulatory controls.

After a device receives 510(k) clearance from FDA, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use or technological characteristics, requires a new 510(k) clearance or could require a PMA. The FDA requires each manufacturer to make the determination of whether a modification requires a new 510(k) notification or PMA in the first instance, but the FDA can review any such decision. If the FDA disagrees with a manufacturer s decision not to seek a new 510(k) clearance or PMA for a particular change, the FDA may retroactively require the manufacturer to seek 510(k) clearance or PMA. The FDA can also require the manufacturer to cease U.S. marketing and/or recall the modified device until additional 510(k) clearance or PMA approval is obtained.

The FDA and the Federal Trade Commission, or FTC, will also regulate the advertising claims of Microbot s products to ensure that the claims Microbot makes are consistent with its regulatory clearances, that there is scientific data to substantiate the claims and that product advertising is neither false nor misleading.

To obtain 510(k) clearance, Microbot must submit a notification to the FDA demonstrating that its proposed device is substantially equivalent to a predicate device (i.e., a device that was in commercial distribution before May 28, 1976, a device that has been reclassified from Class III to Class I or Class II, or a 510(k)-cleared device). The FDA s 510(k) clearance process generally takes from three to 12 months from the date the application is submitted but also can take significantly longer. If the FDA determines that the device or its intended use is not substantially equivalent to a predicate device, the device is automatically placed into Class III, requiring the submission of a PMA.

There is no guarantee that the FDA will grant Microbot 510(k) clearance for its pipeline medical device products, and failure to obtain the necessary clearances for its products would adversely affect Microbot s ability to grow its business. Delays in receipt or failure to receive the necessary clearances, or the failure to comply with existing or future regulatory requirements, could reduce its business prospects.

Devices that cannot be cleared through the 510(k) process due to lack of a predicate device but would be considered low or moderate risk may be eligible for the 510(k) de-novo process. In 1997, the Food and Drug Administration Modernization Act, or FDAMA added the de novo classification pathway now codified in section 513(f)(2) of the FD&C Act. This law established an alternate pathway to classify new devices into Class I or II that had automatically been placed in Class III after receiving a Not Substantially Equivalent, or NSE, determination in response to a 510(k) submission. Through this regulatory process, a sponsor who receives an NSE determination may, within 30 days of receipt, request FDA to make a risk-based classification of the device through what is called a de novo request. In 2012, section 513(f)(2) of the FD&C Act was amended by section 607 of the Food and Drug Administration Safety and Innovation Act (FDASIA), in order to provide a second option for de novo classification. Under this second pathway, a sponsor who determines that there is no legally marketed device upon which to base a determination of substantial equivalence can submit a de novo request to FDA without first submitting a 510(k).

In the event that Microbot receives a Not Substantially Equivalent determination for either of its device candidates in response to a 510(k) submission, the Microbot device may still be eligible for the 510(k) de-novo classification process.

Devices that cannot be cleared through the 510(k) or 510(k) de-novo classification process require the submission of a PMA. The PMA process is much more time consuming and demanding than the 510(k)

notification process. A PMA must be supported by extensive data, including but not limited to data obtained from preclinical and/or clinical studies and data relating to manufacturing and labeling, to demonstrate to the FDA s satisfaction the safety and effectiveness of the device. After a PMA application is submitted, the FDA s in-depth review of the information generally takes between one and three years and may take significantly longer. If the FDA does not grant 510(k) clearance to its products, there is no guarantee that Microbot will submit a PMA or that if Microbot does, that the FDA would grant a PMA approval of Microbot s products, either of which would adversely affect Microbot s business.

Foreign Regulation

In addition to regulations in the United States, Microbot will be subject to a variety of foreign regulations governing clinical trials, marketing authorization and commercial sales and distribution of its products in foreign countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval or clearance. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

International sales of medical devices are subject to foreign governmental regulations which vary substantially from country to country. Whether or not Microbot obtains FDA approval or clearance for its products, Microbot will be required to make new regulatory submissions to the comparable regulatory authorities of foreign countries before Microbot can commence clinical trials or marketing of the product in such countries. The time required to obtain certification or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may differ. Below are summaries of the regulatory systems for medical devices in Europe and Israel, where Microbot currently anticipates marketing its products. However, its products may also be marketed in other countries that have different systems or minimal requirements for medical devices.

Europe. The primary regulatory body in Europe is the European Union, or E.U., which consists of 28 member states and has a coordinated system for the authorization of medical devices.

The E.U. has adopted legislation, in the form of directives to be implemented in each member state, concerning the regulation of medical devices within the European Union. The directives include, among others, the Medical Device Directive, or MDD, that establishes certain requirements with which medical devices must comply before they can be commercialized in the European Economic Area, or EEA (which comprises the member states of the E.U. plus Norway, Liechtenstein and Iceland). Under the MDD, medical devices are classified into four Classes, I, IIa, IIb, and III, with Class I being the lowest risk and Class III being the highest risk. However, the E.U. authorities, including the European Commission, do not have direct regulatory over medical device manufacturers under the MDD. Rather, the MDD directs E.U. Member States to implement laws and regulations consistent with the provisions set forth in the directive.

Under the MDD, to demonstrate compliance of a medical device with the essential requirements, manufacturers must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. An accredited body known as a Notified Body , which is an entity designated by an E.U. Member State (or competent authority) to perform conformity assessments, will typically audit and examine the manufacturer s quality system for the production, quality, design and final inspection of the medical devices and review a Technical File containing technical documents regarding the device, including but limited to, detailed device description, manufacturing information, preclinical and clinical tests, risk analysis, compliance with essential requirements, etc., before issuing a certification demonstrating compliance with the essential requirements. Medical devices that comply with the essential requirements are entitled to bear the Conformité Européene, or CE Mark. Medical devices properly bearing the CE Mark may be commercially distributed throughout the EEA. Under the MDD, notified bodies are also

charged with performing periodic inspections to verify that a manufacturer s quality system, particularly the production and quality controls, is adequately executed and maintained.

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In addition, the MDD requires all medical device manufacturers to inform the competent authorities of their respective Member States of the address(es) of any business facilities and descriptions of any certified medical device products. The MDD also requires manufacturers to file vigilance reports in the event a device malfunction, deterioration in performance, or inadequate instructions or labeling results in, or could lead to, death or serious harm to a patient.

In September 2012, the European Commission published proposals for the revision of the EU regulatory framework for medical devices. The proposal would replace the MDD with a new regulation, the Medical Devices Regulation, or MDR. Unlike the MDD that must be implemented into national laws, the Medical Devices Regulation would be directly applicable in all EEA member states and so is intended to eliminate current national differences in regulation of medical devices. E.U. lawmakers published a revised draft of the proposed MDR in June 2016, which continues to be discussed within the Council of the European Union.

If finally adopted, the MDR is expected to enter into force in late 2016 and become applicable three years thereafter. The adoption of the MDR may, however, be materially delayed due to disagreements about specific portions of the regulation, as well as the implementation process. In its current form it would, among other things, impose additional reporting requirements on manufacturers of high risk medical devices, impose an obligation on manufacturers to appoint a qualified person responsible for regulatory compliance, and provide for more strict clinical evidence requirements. These new rules and procedures will likely result in increased regulatory oversight of all medical devices marketed in the E.U., and this may, in turn, increase the costs, time and requirements that need to be met in order to place a medical devices on the EEA market.

Microbot intends to apply for the CE Mark for each of its medical device products. There is no guarantee that Microbot will be granted a CE Mark for all or any of its pipeline products and failure to obtain the CE Mark would adversely affect its ability to grow its business.

Israel. Israel s Medical Devices Law generally requires the registration of all medical products with the Ministry of Health, or MOH, Registrar as a precondition for production and distribution in Israel. Special exemptions may apply under limited circumstances and for purposes such as the provision of essential medical treatment, research and development of the medical device, and personal use, among others.

Registration of medical devices requires the submission of an application to the Ministry of Health Medical Institutions and Devices Licensing Department, or AMAR. An application for the registration of a medical device includes the following:

- Name and address of the manufacturer, and of the importer as applicable;
- Description of the intended use of the medical device and of its medical indications;
- Technical details of the medical device and of its components, and in the event that the device or the components are not new, information should be provided on the date or renovation;
- Certificate attesting to the safety of the device, issued by a competent authority of one of the following countries: Australia, Canada, European Community (EC), Member States (MSs), Israel, Japan, or the United

States;

Information on any risk which may be associated with the use of the device (including precautionary measures to be taken);

Instructions for use of the device in Hebrew; the MOH may allow the instructions to be in English for certain devices;

Details of the standards to which the device complies;

Description of the technical and maintenance services, including periodic checks and inspections; and

Declaration, as appropriate: of the local manufacturer/importer, and of the foreign manufacturer.

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If the application includes a certificate issued by a competent authority of one of the following recognized countries: Australia, Canada, European Community (CE) Member States (MSs), Japan, or the United States, the registration process is generally expedited, but could still take 6-9 months for approval. If such certificate is not available, the registration process will take significantly longer and a license is rarely issued. Furthermore, the MOH will determine what type of testing is needed. In general, in the case of Israeli manufactured devices that are not registered or authorized in any recognized country, the application requires presentation of a risk analysis, a clinical evaluation, a summary of the clinical trials, and expert opinions regarding the device s safety and effectiveness. Additional requirements may apply during the registration period, including follow-up reviews, to improve the quality and safety of the devices.

According to regulations issued by Israel s Minister of Health in June 2013, a decision on a request to register a medical device must be delivered by AMAR within 120 days from the date of the request, although this rarely occurs. The current rules for the registration of medical devices do not provide for an expedited approval process.

Once granted by the MOH, a license (marketing authorization) for a medical device is valid for five years from the date of registration of the device, except for implants with a life-supporting function, for which the validity is for only two years from the date of registration. Furthermore, the holder of the license, the Israeli Registration Holder, or IRH, must do the following to maintain its license:

- Reside and maintain a place of business in Israel and serve as the regulatory representative.
- Respond to questions from AMAR concerning the registered products.
- Report adverse events to AMAR.
- Renew the registration on time to keep the market approval active.
- Comply with post-marketing requirements, including reporting of adverse and unexpected events occurring in Israel or in other countries where the device is in use.

Getting a device listed on Israel s four major Sick Funds (health insurance entities) is also necessary in order for Israeli hospitals and health care providers to order such products.

Microbot intends to apply for a license from the MOH for each of its medical devices. There is no guarantee that Microbot will be granted licenses for its pipeline products and failure to obtain such licenses would adversely affect its ability to grow its business.

Employees

Microbot currently has two full-time employees and one part time employee, each of whom is based in its principal executive office located in Yokneam, Israel. These employees oversee day-to-day operations of the Company supporting management and leading engineering, manufacturing, intellectual property and administration functions of the Company. As required, Microbot also engages consultants to provide services to the Company, including

regulatory, legal and corporate services. Microbot has no unionized employees.

Microbot currently plans to hire an additional 6-8 full-time employees within the next 12 months, whose principal responsibilities will be the support of its operational, research and development, and clinical development activities. In addition, Microbot intends to hire a chief financial officer after consummation of the Merger.

Facilities

Microbot s principal executive office is located in premises of approximately 1,840 square feet at 5 Hamada Street, 2nd Floor, Yokneam, Israel. Microbot believes that this facility is adequate for its current needs. Microbot

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plans to relocate to a larger facility 12-18 months after the consummation of the Merger, which will provide the space and infrastructure necessary to accommodate its development work based on its current operating plan. Microbot does not own any real property.

Legal Matters

Microbot is not currently a party in any legal or governmental regulatory proceedings nor is Microbot currently aware of any pending or potential legal or governmental regulatory proceedings proposed to be initiated against us that would have a material adverse effect on its business, financial condition or operating results.

Corporate Information

Microbot s principal executive office is located at 5 Hamada St. 2nd Floor, Yokneam Israel. Microbot s telephone number is +972 (0) 4 820 0710. Microbot maintains a website at www.microbotmedical.com. Microbot s website, and the information contained therein, is not part of this proxy statement.

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MICROBOT MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read together with Microbot s financial statements and the related notes appearing elsewhere in this proxy statement. In addition to historical information, the following discussion contains forward-looking statements that involve risks and uncertainties. Please see Cautionary Note Regarding Forward-Looking Statements on page 49 for additional factors relating to such statements, and see Risk Factors Risks Relating to Microbot, beginning on page 29 for a discussion of certain risk factors applicable to Microbot s business, financial condition and results of operation. Operating results are not necessarily indicative of results that may occur in future periods.

Overview

Microbot is a pre-clinical medical device company specializing in the research, design and development of next generation micro-robotics assisted medical technologies targeting the minimally invasive surgery space. Microbot is primarily focused on leveraging its micro-robotic technologies with the goal of improving surgical outcomes for patients.

Microbot is currently developing its first two product candidates: the Self Cleaning Shunt, or SCS, for the treatment of hydrocephalus and Normal Pressure Hydrocephalus, or NPH; and TipCAT, a self-propelling, semi-disposable endoscope that is being developed initially for use in colonoscopy procedures. Microbot s product candidates are being designed to bring greater functionality to conventional medical devices and to reduce the known risks associated with such devices. Microbot is currently aiming to complete pre-clinical or clinical data collection for both product candidates within the next 24 months and is targeting approval or clearance for SCS by late 2018.

Microbot has no products approved for commercial sale and has not generated any revenues from product sales since its inception in 2010. From inception to June 30, 2016, Microbot has raised net cash proceeds of approximately $5,178,000 to fund operations, primarily from government grants, loans, and private placement offerings of debt and equity securities.

Microbot has never been profitable and has incurred significant operating losses in each year since inception. Net losses for the six months ended June 30, 2016 and 2015 were approximately $440,000 and $484,000, respectively, and net losses for the years ended December 31, 2015 and 2014 were approximately $921,000 and $1,021,000, respectively. Substantially all of Microbot s operating losses resulted from expenses incurred in connection with its research and development programs and from general and administrative costs associated with its operations. As of June 30, 2016, Microbot had a net working capital of approximately $670,000, consisting primarily of cash and cash equivalents. Microbot expects to continue to incur significant expenses and increasing operating losses for at least the next several years as it continues the clinical development of, and seeks regulatory approval for its product candidates. Accordingly, Microbot will continue to require substantial additional capital to continue its clinical development and potential commercialization activities. The amount and timing of Microbot s future funding requirements will depend on many factors, including the timing and results of its clinical development efforts.

Estimated completion dates and costs for Microbot s clinical development and research programs can vary significantly for each current and future product candidate and are difficult to predict. As a result, Microbot cannot estimate with any degree of certainty the costs it will incur in connection with development of its product candidates at this point in time. Microbot anticipates it will make determinations as to which programs and product candidates to pursue and how much funding to direct to each program and product candidate on an ongoing basis in response to the scientific success of early research programs, results of ongoing and future clinical trials, its ability to enter into

collaborative agreements with respect to programs or potential product candidates, as well as ongoing assessments as to each current or future product candidate s commercial potential.

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Recent Developments

On August 15, 2016, Microbot entered into the Merger Agreement pursuant to which it will merge with Merger Sub, a wholly-owned subsidiary of StemCells in an all-stock transaction. Subject to the terms and conditions of the Merger Agreement, at the closing of the transaction, Microbot will be a wholly owned subsidiary of StemCells, which is expected to be renamed Microbot Medical Inc.

As a condition to the completion of the Merger, Microbot will conduct one or more private capital raises prior to the consummation of the Merger, pursuant to which Microbot is required to raise proceeds of at least $4.0 million. Microbot expects the proceeds from this financing, together with its existing cash and cash equivalents, to fund the combined company s operations for at least 18 months after the closing of the Merger.

Following the closing of the Merger, StemCells stockholders will own approximately 5% of the combined company, with the remaining 95% of the combined company ownership comprised 75% of existing Microbot shareholders and 20% by certain advisors (which includes an existing Microbot shareholder) pursuant to Section 5.29 of the Merger Agreement. The transaction has been approved by the board of directors of both companies and the shareholders of Microbot are scheduled to vote on the Merger on September 14, 2016. The Merger is expected to close in the fourth quarter of 2016, subject to the approval of the stockholders of StemCells and other customary closing conditions, which are described in The Merger Agreement beginning on page 71.

In connection with the Merger, Microbot will be deemed to be the accounting acquirer because the shareholders of Microbot will effectively control the combined company following the Merger. The Merger will be treated as a reverse acquisition.

Financial Operations Overview

Research and Development Expenses

Research and development expenses consist primarily of salaries and related expenses and overhead for Microbot s research, development and engineering personnel, prototype materials and research studies. Microbot expenses its research and development costs as incurred.

General and Administrative Expenses

General and administrative expenses consist primarily of the costs associated with management costs, obtaining and maintaining Microbot s patent portfolio, professional fees for accounting, auditing, consulting and legal services, and allocated overhead expenses.

Microbot expects that its general and administrative expenses may increase in the future as it expands its operating activities, maintains and expands its patent portfolio and incurs additional costs associated with the Merger, the preparation of becoming a public company and maintaining compliance with exchange listing and SEC requirements. Microbot expects these potential increases will likely include management costs, legal fees, accounting fees, directors and officers liability insurance premiums and expenses associated with investor relations.

Income Taxes

Microbot has incurred net losses and has not recorded any income tax benefits for the losses. It is still in its development stage and has not yet generated revenues, therefore, it is more likely than not that sufficient taxable

income will not be available for the tax losses to be utilized in the future.

Critical Accounting Policies and Significant Judgments and Estimates

Microbot s management s discussion and analysis of its financial condition and results of operations are based on its financial statements, which have been prepared in accordance with U.S. generally accepted accounting

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principles, or GAAP. The preparation of these financial statements requires Microbot to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, Microbot evaluates its estimates and judgments, including those related to accrued research and development expenses. Microbot bases its estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

While Microbot s significant accounting policies are described in more detail in the notes to its financial statements appearing elsewhere in this proxy statement, Microbot believes the following accounting policies are the most critical for fully understanding and evaluating its financial condition and results of operations.

Foreign Currency Translation

Microbot s functional currency is the U.S. dollars, and its reporting currency is the U.S. dollar.

Government Grant and Input Tax Credit Recoveries

Microbot from time to time has received, and may in the future continue to receive, grants from the Israeli Office of the Chief Scientist to cover eligible company expenditures. These are presented as other income in the statement of operations and comprehensive loss as the grant funds are used for or applied towards a number of Microbot s operating expenses, such as salaries and benefits, research and development and professional and consulting fees. The recoveries are recognized in the corresponding period when such expenses are incurred.

Research and Development Expenses

Microbot recognizes research and development expenses as incurred, typically estimated based on an evaluation of the progress to completion of specific tasks using data such as clinical site activations, manufacturing steps completed, or information provided by vendors on their actual costs incurred. Microbot determines the estimates by reviewing contracts, vendor agreements and purchase orders, and through discussions with internal clinical personnel and external service providers as to the progress or stage of completion of trials or services and the agreed-upon fee to be paid for such services. These estimates are made as of each balance sheet date based on facts and circumstances known to Microbot at that time. If the actual timing of the performance of services or the level of effort varies from the estimate, Microbot will adjust the estimate accordingly. Nonrefundable advance payments for goods and services, including fees for process development or manufacturing and distribution of clinical supplies that will be used in future research and development activities, are capitalized as prepaid expenses and recognized as expense in the period that the related goods are consumed or services are performed.

Microbot may pay fees to third-parties for manufacturing and other services that are based on contractual milestones that may result in uneven payment flows. There may be instances in which payments made to vendors will exceed the level of services provided and result in a prepayment of the research and development expense.

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Results of Operations

Comparison of Six Months Ended June 30, 2016 and 2015

The following table sets forth the key components of Microbot s results of operations for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June 30,		Increase/
	2016	2015	(Decrease)
Research and Development Expenses	263	462	(199)
General and Administrative Expenses	140	31	109
Financing Expenses	38	(9)	47

Research and Development Expenses. Microbot s research and development expenses were approximately $263,000 for the six months ended June 30, 2016, compared to approximately $462,000 for the same period in 2015. The decrease in research and development expenses of approximately $199,000 in 2016 was primarily due to a slowdown in activities while management concentrated on the Merger and a potential capital raise. Microbot expects its research and development expenses to increase over time as Microbot advances its development programs and begins pre-clinical and clinical trials for SCS and TipCAT.

General and Administrative Expenses. General and administrative expenses were approximately $140,000 for the six months ended June 30, 2016, compared to approximately $31,000 for the same period in 2015. The increase in general and administrative expenses of approximately $109,000 in 2016 was primarily due to increased fees paid for management consulting services. Microbot believes its general and administrative expenses may increase over time as it advances its programs, increases its headcount and operating activities and incurs expenses associated with being a public company.

Financing Expenses. Financing expenses were approximately $38,000 for the six months ended June 30, 2016, compared to income of approximately $9,000 for the same period in 2015. The increase in interest expenses of $47,000 in 2016 was primarily due to the revaluation of Microbot s convertible loans and currency exchange differences.

Comparison of the Years Ended December 31, 2015 and 2014

The following table sets forth the key components of Microbot s results of operations for the years ended December 31, 2015, 2014 (in thousands):

	2015	2014	Change in 2015 Versus 2014
Research and Development Expenses	823	837	(1.67)%
General and Administrative Expenses	92	65	41.53%
Financing Expenses	6	119	(95)%

Research and Development Expenses. Research and development expenses, net for the fiscal year ended December 31, 2015 was $822,759, compared to $836,698 for the fiscal year ended December 31, 2014, a decrease of approximately $14,000 or 1.67%. This decrease was primarily attributable to a decrease in expenses relating to the submission of new and maintenance of existing patents and professional services. A portion of Microbot s research and development expenses are paid for through grants received from time to time from the Office of Chief Scientist of the State of Israel. For the fiscal year ended December 31, 2015, Microbot received grants totaling $201,388, compared to grants totaling $429,633 for the fiscal year ended December 31, 2014.

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Research and development expenses by major programs or categories were as follows (in thousands):

	2015	2014	Change in 2015 Versus 2014
Wages and related expenses	465	480	(3.1)%
Professional services	365	537	(32.0)%
Patents	37	116	(68.1)%
Other	158	134	(17.9)%
	$ 1,025	$ 1,267	(19.1)%
Less grants received from Chief Scientist	(201)	(429)	(53.1)%
Total	824	838	

General and Administrative Expenses. General and administrative expenses for the fiscal year ended December 31, 2015 was $92,018, compared to $65,113 for the fiscal year ended December 31, 2014, an increase of approximately $27,000, or 41.5%. This increase was primarily attributable to an increase in accounting and auditor services relating to a possible going-public transaction and capital raise in 2015.

Financing Expenses. Financing expenses, net for the fiscal year ended December 31, 2015 was approximately $6,000, compared to approximately $119,000 for the fiscal year ended December 31, 2014. Interest expense consists primarily of bank fees and interest, and currency exchange differences. The decrease in interest expense in 2015 over 2014 was due to primarily to currency exchange differences, as well as to a lesser extent on accumulated interest on outstanding convertible loans.

Liquidity and Capital Resources

Microbot has incurred losses since inception and negative cash flows from operating activities for the six months ended June 30, 2016 and 2015 and for the years ended December 31, 2015 and 2014. As of June 30, 2016, Microbot had a net working capital of approximately $671,000, consisting primarily of cash and cash equivalents. Microbot anticipates that it will continue to incur net losses for the foreseeable future as it continues research and development efforts of its product candidates, hires additional staff, including clinical, scientific, operational, financial and management personnel, and incurs additional costs associated with being a public company.

Microbot has funded its operations through the issuance of capital stock, grants from the Israeli Office of the Chief Scientist, and convertible debt. As of June 30, 2016, Microbot had raised total net cash of $5,178,125, which was comprised of $3,121,958 upon the issuance of capital shares, a $200,000 strategic investment from Johnson & Johnson (non-equity and non-dilutive), approximately $1,162,000 upon the sale of convertible promissory notes in 2015 and 2016, and three grants from the Israeli Office of the Chief Scientist totaling $893,673. As of June 30, 2016, Microbot had a shareholders deficit of $504,493 and has incurred a total cumulative loss of $4,421,335 from inception (November 2010) to June 30, 2016 (which reflects a net cumulative loss of $3,626,451, after a deduction of the Chief Scientist grants which totaled $794,884).

Microbot s independent registered public accounting firm included an explanatory paragraph in its report on Microbot s financial statements as of and for the year ended December 31, 2015, describing the continuation of Microbot s

activities and its ability to fulfill its obligations as dependent upon its ability to receive financing from its shareholders or new investors.

Microbot plans to continue to fund its research and development and other operating expenses, and the associated losses from operations, through working capital obtained from the Microbot Private Placement, future

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issuances of debt and/or equity securities and potential collaborations or strategic partnerships with other entities. Microbot also expects to apply for additional grants from the Israeli Office of the Chief Scientist. The capital raises from issuances of convertible debt and equity securities could result in additional dilution to Microbot s shareholders. In addition, to the extent Microbot determines to incur additional indebtedness, Microbot s incurrence of additional debt could result in debt service obligations and operating and financing covenants that would restrict its operations. Microbot can provide no assurance that financing will be available in the amounts it needs or on terms acceptable to it, if at all. If Microbot is not able to secure adequate additional working capital when it becomes needed, Microbot may be required to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or suspend or curtail planned research programs. Any of these actions could materially harm Microbot s business.

Cash Flows

The following table provides a summary of the net cash flow activity for each of the periods set forth below (in thousands):

	Six Month Ended June 30,		Year Ended December 31,	
	2016	**2015**	**2015**	**2014**
Net cash used in operating activities	$ (346)	$ (405)	$ (765)	$ (1,063)
Net cash provided by financing activities	750		412	1,503
Net increase (decrease) in cash and cash equivalents	404	(407)	(354)	432

Comparison of the Six Months Ended June 30, 2016 and 2015

Cash used in operating activities for the six months ended June 30, 2016 was approximately $346,000, calculated by adjusting net loss from operations by approximately $94,000 to eliminate non-cash and expense items not involving cash flows such as depreciation and accumulated interest on convertible loans, as well as other changes in assets and liabilities resulting in non-cash adjustments in the income statement. Cash used in operating activities for the six months ended June 30, 2015 was approximately $484,000, similarly adjusted by approximately $79,000. Net cash provided by financing activities of $750,000 for the six months ended June 30, 2016 consisted of proceeds from the sale of convertible promissory notes to existing shareholders of Microbot, compared to $nil in the six months ended June 30, 2015.

Comparison of the Years Ended December 31, 2015 and 2014

Cash used in operating activities for the year ended December 31, 2015 was approximately $764,000, calculated by adjusting net loss from operations by approximately $156,000 to eliminate non-cash and expense items not involving cash flows such as depreciation and accumulated interest on convertible loans, as well as other changes in assets and liabilities resulting in non-cash adjustments in the income statement. Cash used in operating activities for the year ended December 31, 2014 was approximately $1,063,000, similarly adjusted by approximately $(42,000). Net cash provided by financing activities of $412,494 for the year ended December 31, 2015 consisted of proceeds from the sale of convertible promissory notes to existing shareholders of Microbot. Net cash provided by financing activities of approximately $1,500,000 for the year ended December 31, 2014 consisted of net proceeds from the exercise of outstanding warrants for shares of the Series A Preferred Stock of Microbot.

Operating Capital Requirements

To date, Microbot has not generated any revenues, and does not have any approved products. Microbot does not know when, or if, it will generate any revenue. Microbot does not expect to generate significant revenue unless and until it obtains regulatory approval of and commercialize one of its current or future product candidates. Microbot anticipates that it will continue to incur losses for the foreseeable future, and it expects the losses to

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increase as it continues the development of, and seeks regulatory approvals for, its product candidates, and begins to commercialize any approved products. Microbot is subject to all of the risks incident to the development of new medical devices, and it may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect its business. Upon closing of the Merger, Microbot expects to incur additional costs associated with operating as a public company.

Based upon Microbot s operating plans, Microbot does not currently have sufficient working capital to fund planned operating expenses for at least 12 months without additional cash. However, as a condition to the completion of the Merger, Microbot will conduct one or more private capital raises prior to the closing of the Merger, pursuant to which Microbot would raise at least $4.0 million in aggregate. Microbot expects the proceeds from this financing to fund the combined company s operations for at least 18 months after the closing of the Merger. Microbot will require additional capital to complete the development, regulatory approval and, if approved, commercialization of SCS and TipCAT, and may also need to raise additional funds to pursue other development activities related to additional product candidates.

Until such time, if ever, as Microbot can generate substantial revenues, it expects to finance its cash needs through a combination of equity or debt financings, collaborations, strategic partnerships or licensing arrangements, and Israeli government grants. In any event, Microbot does not expect to achieve revenue prior to the use of cash resulting from the private placement. Other than with respect to the Microbot Private Placement, Microbot does not have any committed external sources of funds. Additional capital may not be available on reasonable terms, if at all. To the extent that Microbot raises additional capital through the sale of stock or convertible debt securities, the ownership interest of its shareholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of its common shareholders. Debt financing, if available, may involve agreements that include increased fixed payment obligations and covenants limiting or restricting Microbot s ability to take specific actions, such as incurring additional debt, making capital expenditures, declaring dividends, selling or licensing intellectual property rights and other operating restrictions that could adversely impact its ability to conduct its business. If Microbot raises additional funds through collaborations, strategic partnerships or licensing arrangements with third parties, it may have to relinquish valuable rights to its product candidates, intellectual property, future revenue streams or research programs, or grant licenses on terms that may not be favorable to it. If Microbot is unable to raise additional funds when needed, it may be required to delay, limit, reduce or terminate its product development or future commercialization efforts or grant rights to develop and commercialize its product candidate to others.

Promissory Notes

As of June 30, 2016, Microbot had outstanding convertible promissory notes with an aggregate principal amount of $1,162,000. Of such promissory notes, an aggregate principal amount of $412,000 were issued October 2015 with a maturity date of July 8, 2016 (the October 2015 Notes), and the remaining aggregate principal amount of $750,000 were issued in May 2016 with a maturity date of November 11, 2017 (the May 2016 Notes).

The October 2015 Notes had an interest rate of 10%, and at maturity converted into an aggregate of 452,650 Series A Preferred Shares and warrants to purchase an aggregate of 452,650 Series A Preferred Shares at an exercise price of $1.00 per share.

The May 2016 Notes have an interest rate of 10% per annum, payable with the principal on the maturity date. The May 2016 Notes will convert into equity upon the earlier to occur of a reverse merger (which would include the Merger) and a qualified financing resulting in $2 million or greater gross proceeds, each at a 20% discount to the applicable valuation. Microbot may also trigger a conversion upon the maturity date at a 20% discount to a deemed

valuation of $15 million. The May 2016 Notes also permit prepayment under certain conditions.

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Off Balance Sheet Arrangements

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

Quantitative and Qualitative Disclosures about the Market Risk of Microbot

Interest Rate Risk

Microbot s cash and cash equivalents as of June 30, 2016 consisted of readily available checking and money market funds. Microbot s primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, because of the short-term nature of the instruments in Microbot s portfolio, a sudden change in market interest rates would not be expected to have a material impact on Microbot s financial condition and/or results of operations. Microbot does not believe that its cash or cash equivalents have significant risk of default or illiquidity. While Microbot believes its cash and cash equivalents do not contain excessive risk, Microbot cannot provide absolute assurance that in the future its investments will not be subject to adverse changes in market value. In addition, Microbot maintains significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

Effects of Inflation

Inflation generally affects Microbot by increasing its clinical trial costs. Microbot does not believe that inflation and changing prices had a significant impact on its results of operations for any periods presented herein.

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THE SPECIAL MEETING OF STEMCELLS STOCKHOLDERS

Date, Time and Place

The StemCells special meeting will be held on October [ ], 2016, at 2:00 p.m., local time, at 39899 Balentine Drive, Suite 200, Newark, CA 94560.

Purpose of the StemCells Special Meeting

The StemCells special meeting will be held for the following purposes:

1. To approve the proposal to adopt the Merger Agreement and the transactions contemplated thereby;
2. To approve the Share Issuance Proposal;
3. To approve the Reverse Stock Split Proposal;
4. To approve the Authorized Shares Increase Proposal;
5. To approve the Name Change Proposal;
6. To approve the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the StemCells Merger Proposals; and
7. To conduct any other business as may properly come before the StemCells special meeting or any adjournment or postponement thereof.

StemCells Record Date; Shares Entitled to Vote; Principal Accountants

The Board of Directors of StemCells has fixed [ ], 2016 as the record date for the determination of stockholders entitled to notice of, and to vote at, the StemCells special meeting and any adjournment or postponement thereof. Only holders of record of shares of StemCells common stock at the close of business on the record date are entitled to notice of, and to vote at, the StemCells special meeting. At the close of business on the record date, StemCells had outstanding and entitled to vote [ ] shares of common stock.

The StemCells common stock is the only class of securities entitled to vote at the StemCells special meeting. Each share of StemCells common stock outstanding on the StemCells record date entitles the holder thereof to one vote on each matter properly brought before the StemCells special meeting, exercisable in person or by proxy.

A representative from Grant Thornton is not expected to be present at the special meeting.

Quorum

In order to conduct the business described above at the StemCells special meeting, StemCells must have a quorum present. Stockholders who hold a majority of the StemCells common stock outstanding as of the close of business on the record date for the StemCells special meeting must be present, either in person or by proxy, in order to constitute a quorum to conduct business at the StemCells special meeting. As of the StemCells record date, there were [ ] shares of StemCells common stock outstanding and entitled to vote at the StemCells special meeting. Accordingly, the presence, in person or by proxy, of the holders of [ ] shares of StemCells common stock will be required in order to establish a quorum.

Required Vote

The proposals being submitted for approval by the StemCells stockholders at the StemCells special meeting will be approved or rejected on the basis of certain specific voting thresholds. In particular:

- the approval of the Merger Agreement Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting;

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the approval of the Share Issuance Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock cast on the matter, either in person or by proxy, at the StemCells special meeting;

the approval of the Reverse Stock Split Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting;

the approval of the Authorized Shares Increase Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting;

the approval of the Name Change Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy at the StemCells special meeting; and

the approval of the adjournment of the StemCells special meeting, if necessary, to solicit proxies if there are not sufficient votes in favor of the StemCells Merger Proposals, requires the affirmative vote of the holders of a majority of the StemCells common stock cast on the matter either in person or by proxy at the StemCells special meeting.

Approval of the Merger Agreement Proposal, the Share Issuance Proposal, the Reverse Stock Split Proposal, and the Authorized Shares Increase Proposal are required for the completion of the Merger. If any of these proposals are not approved by the StemCells stockholders, the Merger may not be completed.

Counting of Votes; Treatment of Abstentions and Incomplete Proxies

If a StemCells stockholder fails to submit a proxy card and fails to vote at the StemCells special meeting, such stockholder s shares will not be counted as present for the purpose of determining the presence of a quorum, which is required to transact business at the StemCells special meeting, and will have no effect on the outcome of Proposals No. 2 (Share Issuance Proposal) and No. 6 (adjournment to solicit additional proxies, if necessary). However, the failure to submit a proxy card or vote at the StemCells special meeting will have the same effect as voting AGAINST Proposals No. 1 (Merger Agreement Proposal), No. 3 (Reverse Stock Split Proposal), No. 4 (Authorized Shares Increase Proposal), and No. 5 (Name Change Proposal).

If a StemCells stockholder submits a proxy card and affirmatively elects to abstain from voting, that proxy will be counted as present for the purpose of determining the presence of a quorum for the StemCells special meeting, but will not be voted at the StemCells special meeting. As a result, such abstention will have the same effect as voting AGAINST StemCells Proposal Nos. 1, 2, 3, 4, 5, and 6.

If a StemCells stockholder submits a proxy card without indicating how such stockholder wishes to vote, the shares of StemCells common stock represented by such proxy card will be counted as present for the purpose of determining the presence of a quorum for the StemCells special meeting and all of such shares will be voted FOR Proposal Nos. 1, 2, 3, 4, 5, and 6.

Voting by StemCells Directors and Executive Officers In connection with the execution and delivery of the Merger Agreement, on August 15, 2016, current and former directors and certain executive officers of StemCells entered into the StemCells Stockholder Voting Agreements pursuant to which each has agreed to vote the shares of StemCells common stock owned as of the record date of the StemCells special meeting in favor of the StemCells Merger Proposals. These voting agreements cover approximately 1% of StemCells common stock outstanding on the record date for the StemCells special meeting. Voting of Proxies by Registered Holders

Giving a proxy means that a StemCells stockholder authorizes the persons named in the enclosed proxy card to vote the stockholder s shares at the StemCells special meeting in the manner such stockholder directs. If you

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are a registered StemCells stockholder (that is, you hold your stock in your own name), you may vote in person at the StemCells special meeting or vote by completing and returning the enclosed proxy card. Whether or not you plan to attend the StemCells special meeting, StemCells urges you to vote by proxy to ensure that your vote is counted. You may still attend the StemCells special meeting and vote in person even if you have already voted by proxy.

By mail. You may vote by mailing your signed StemCells proxy card in the enclosed return envelope. Please provide your proxy instructions only once and as soon as possible so that your shares can be voted at the StemCells special meeting.

By Internet or by telephone. Follow the instructions on the StemCells proxy card to vote by Internet or telephone.

In person at the meeting. If you attend the StemCells special meeting, you may deliver your completed StemCells proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

Shares Held in Street Name

If your shares of StemCells common stock are held in street name in a stock brokerage account or by another nominee, you must provide the record holder of your shares with instructions on how to vote the shares. Please follow the voting instructions provided by your broker or other nominee. You may not vote shares of StemCells common stock held in street name by returning a proxy card directly to StemCells or by voting in person at the StemCells special meeting unless you provide a legal proxy, which you must obtain from your broker or other nominee.

Brokers or other nominees who hold shares of StemCells common stock in street name for a beneficial owner typically have the authority to vote in their discretion on routine proposals, even when they have not received instructions from beneficial owners. However, brokers or other nominees are not allowed to exercise their voting discretion on matters that are determined to be non-routine without specific instructions from the beneficial owner. None of the proposals being voted on at StemCells special stockholder meeting will be classified as routine. Broker non-votes are shares held by a broker or other nominee that are represented at the StemCells special meeting, but with respect to which the broker or other nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker or other nominee does not have discretionary voting power on such proposal. Therefore, if you are a StemCells stockholder and hold your shares in street name, you should instruct your broker or other nominee on how to vote your shares to ensure that your shares are voted with respect to each of the StemCells Merger Proposals. Broker non-votes will be counted for purposes of determining whether a quorum exists at the StemCells special meeting.

Revocability of Proxies and Changes to a StemCells Stockholder s Vote

If you are a StemCells stockholder and wish to change your vote with respect to any proposal, you may do so by revoking your proxy at any time prior to the commencement of voting with respect to such proposal at the StemCells special meeting by:

- sending a written notice stating that you would like to revoke your proxy to StemCells President at StemCells, Inc., 39899 Balentine Drive, Suite 200, Newark, CA 94560;
- submitting new proxy instructions on a new proxy card with a later date; or

if you have voted by Internet or telephone, by casting a new vote over the Internet or by telephone as instructed above; or

attending the StemCells special meeting and voting in person (but note that your attendance alone will not revoke your proxy).

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If you are a StemCells stockholder of record, revocation of your proxy or voting instructions by written notice must be received by StemCells President by no later than the close of business on October [ ], 2016, although you may also revoke your proxy by attending the StemCells special meeting and voting in person. **However, if your shares are held in street name by a broker or other nominee and you have instructed such broker or other nominee to vote your shares, you must follow directions received from your broker or other nominee in order to change those voting instructions.**

Solicitation of Proxies

StemCells will bear the cost and expense of preparing, assembling, printing, and mailing this proxy statement, any amendments thereto, the proxy card, and any additional information furnished to the StemCells stockholders. StemCells will bear any fees paid to the SEC in connection with the filing of this proxy statement. StemCells may also reimburse brokerage houses and other custodians, nominees, and fiduciaries for their costs of soliciting and obtaining proxies from beneficial owners of StemCells common stock, including the costs of reimbursing brokerage houses and other custodians, nominees, and fiduciaries for their costs of forwarding this proxy statement and other solicitation materials to such beneficial owners. In addition, proxies may be solicited without extra compensation by directors, officers, and employees of each of StemCells by mail, telephone, fax, or other methods of communication. StemCells has retained Okapi Partners to assist StemCells in the solicitation of proxies from the StemCells stockholders in connection with the StemCells special meeting. Okapi will receive an initial start-up payment of $6,500 and a per unit fee for each call completed and each vote obtained as compensation for its services, plus reimbursement of out of pocket expenses. StemCells has agreed to indemnify Okapi against certain liabilities arising out of or in connection with its engagement.

Delivery of Proxy Materials to Households Where Two or More StemCells Stockholders Reside

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

In connection with the StemCells special meeting, a number of brokers with account holders who are StemCells stockholders will be householding StemCells proxy materials. As a result, a single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the applicable stockholders. Once a StemCells stockholder receives notice from its broker that they will be householding communications to such stockholder s address, householding will continue until such stockholder is notified otherwise or until such stockholder revokes its consent. If, at any time, a StemCells stockholder no longer wishes to participate in householding and would prefer to receive a separate proxy statement, such stockholder should notify its broker or contact StemCells President at StemCells, Inc., 39899 Balentine Drive, Suite 200, Newark CA 94560. StemCells stockholders who currently receive multiple copies of this proxy statement at their address and would like to request householding of their communications should contact their broker.

Attending the StemCells Special Meeting

All StemCells stockholders as of the StemCells record date, or their duly appointed proxies, may attend the StemCells special meeting. If you are a registered StemCells stockholder (that is, if you hold your stock in your own name) and you wish to attend the StemCells special meeting, please bring your proxy and evidence of your stock ownership, such as your most recent account statement, to the StemCells special meeting. You should also bring valid picture identification.

If your shares are held in street name in a stock brokerage account or by another nominee and you wish to attend the StemCells special meeting, you need to bring a copy of a brokerage or bank statement to the StemCells special meeting reflecting your stock ownership as of the StemCells record date. You should also bring valid picture identification.

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STEMCELLS PROPOSALS

Proposal No. 1: To approve and adopt the Merger Agreement, and approve the transactions contemplated thereby

StemCells is asking its stockholders to consider and vote on a proposal to adopt the Merger Agreement and approve the transactions contemplated thereby, including the Merger of Merger Sub with and into Microbot, with Microbot as the surviving corporation and a direct, wholly-owned subsidiary of StemCells. StemCells stockholders should carefully read this proxy statement in its entirety for more detailed information concerning the Merger Agreement and the transactions contemplated thereby. In particular, StemCells stockholders are directed to the Merger Agreement, which is attached as Annex A to this proxy statement.

Required Vote; Recommendation to StemCells Stockholders

Approval of the Merger Agreement Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting. For purposes of the vote on this Merger Agreement Proposal, an abstention, a broker non-vote, or a failure to submit a proxy card or vote at the StemCells special meeting will have the same effect as voting AGAINST this Merger Agreement Proposal.

THE BOARD OF DIRECTORS OF STEMCELLS UNANIMOUSLY RECOMMENDS A VOTE FOR THE MERGER AGREEMENT PROPOSAL.

Proposal No. 2: To approve of the issuance of StemCells common stock in connection with the Merger to advisors and to shareholders of Microbot, in each case as contemplated by the Merger Agreement.

At the effective time of the Merger, without any action on the part of the holders of Microbot capital stock, each then-outstanding share of Microbot capital stock will be automatically converted into the right to receive a number of shares of StemCells common stock equal to the Exchange Ratio, as such ratio is calculated pursuant to the formula set forth in the Merger Agreement (see the section entitled The Merger Agreement Merger Consideration). In addition, at the closing of the Merger, StemCells will grant its common stock to certain advisors as compensation for their work with respect to the Merger. The Exchange Ratio is based on the number of shares of StemCells common stock (after giving effect to the Reverse Stock Split described in Proposal No. 3 and including all shares of StemCells common stock issuable upon the conversion of any StemCells convertible security and shares of StemCells common stock to be issued to certain advisors with respect to the Merger representing, in the aggregate, 20% of StemCells post-closing capitalization) and Microbot capital stock outstanding, in each case calculated on a fully diluted basis immediately prior to the completion of the Merger, and will not be determined until that time. Accordingly, any changes in the number of shares of outstanding capital stock of either StemCells or Microbot prior to the completion of the Merger would result in a corresponding change to the Exchange Ratio.

As a result, upon completion of the Merger, Microbot shareholders are expected to receive shares of StemCells common stock representing an aggregate of approximately 75% of the outstanding shares of common stock of the combined company, calculated on a fully diluted basis. The Merger will have no effect on the number of shares of StemCells common stock held by current StemCells stockholders as of immediately prior to the completion of the Merger (subject to any changes in outstanding shares of StemCells common stock as a result of the proposed reverse stock split described in the Reverse Stock Split Proposal below). It is expected that upon completion of the Merger, such shares will represent an aggregate of approximately 5% of the outstanding shares of common stock of the combined company calculated on a fully diluted basis.

Required Vote; Recommendation of the StemCells Board of Directors

Approval of this Share Issuance Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock cast on the matter, either in person or by proxy, at the StemCells special

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meeting. A failure to submit a proxy card or vote at the StemCells special meeting will result in your shares not being counted as present for the purpose of determining the presence of a quorum, which is required to transact business at the StemCells special meeting, and will have no effect on the outcome of this Share Issuance Proposal. However, for purposes of the vote on this Share Issuance Proposal, an abstention will be counted as present for the purpose of determining a quorum, but will have the same effect as voting AGAINST this Share Issuance Proposal, and a broker non-vote will have no effect on the outcome of this Share Issuance Proposal.

Proposal No. 3: To amend StemCells restated certificate of incorporation to effect a reverse stock split of StemCells issued and outstanding common stock within the range of one-for-[ ] to one-for-[ ] (with the exact amount to be determined by StemCells Board of Directors prior to the completion of the Merger)

Overview

StemCells Board of Directors has unanimously adopted a resolution declaring advisable and recommending to the stockholders for their approval a proposal to amend the company s restated certificate of incorporation, as amended to date, to effect a reverse stock split of StemCells issued and outstanding common stock at any whole number ratio between, and inclusive of, one-for-[ ] and one-for-[ ] (the Reverse Stock Split). Approval of this Proposal Number 3 would grant StemCells Board the authority, without further action by the stockholders, to carry out the Reverse Stock Split, at any time within three months after the date stockholder approval for the Reverse Stock Split is obtained from the stockholders, with the exact exchange ratio and timing of the Reverse Stock Split (if at all) to be determined at StemCells Board s discretion. The Board s decision whether or not (and when) to effect a Reverse Stock Split (and at what whole number ratio to effect the Reverse Stock Split) will be based on a number of factors, including market conditions, existing and anticipated trading prices for our common stock and the continued listing requirements of the NASDAQ Capital Market.

A sample form of the certificate of amendment relating to this Proposal Number 3, which StemCells would file with the Secretary of State of the State of Delaware to carry out the Reverse Stock Split, is attached to this proxy statement as Annex C.

As explained below, we are asking our stockholders to approve this Proposal Number 3 because we believe a Reverse Stock Split would result in a higher price per share for StemCells outstanding shares of our common stock, which should enable us to maintain our listing on NASDAQ and allow the combined company to meet the initial listing standards of the NASDAQ Capital Market.

What to Expect from a Reverse Stock Split

If approved by StemCells stockholders and Board, the Reverse Stock Split would be implemented simultaneously for all of StemCells then-outstanding common stock (the Old Shares) and the exchange ratio would be the same for all of our issued and outstanding shares of common stock. The Reverse Stock Split would affect all StemCells stockholders uniformly and would not affect any stockholder s percentage ownership interests in StemCells, except to the extent that the Reverse Stock Split results in any of our stockholders owning a fractional share, because fractional shares would be rounded up to the nearest whole share. The Exchange Ratio will be adjusted as a result of the Reverse Stock Split. Shares of common stock issued pursuant to the Reverse Stock Split (the New Shares) would remain fully paid and nonassessable. Outstanding derivative securities exercisable for, or convertible into, our common stock would be proportionally adjusted, as would the exercise and conversion prices of those derivative securities.

Reasons for the Reverse Stock Split

The Board of Directors of StemCells approved the proposal authorizing the reverse stock split because it believes that a reverse stock split will allow the combined company to satisfy the initial listing requirements of the NASDAQ Capital Market, which listing is a condition to the completion of the Merger, and the Board of

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Directors of StemCells also believes that the increased market price of StemCells common stock expected to result from the implementation of a reverse stock split may improve the marketability and liquidity of StemCells common stock.

NASDAQ Requirements for Listing on the NASDAQ Capital Market

StemCells common stock is currently quoted on the NASDAQ Capital Market. According to applicable NASDAQ Listing Rules, in a transaction constituting a reverse merger in which an issuer combines with a non-NASDAQ entity, resulting in a change of control of the issuer and potentially allowing the non-NASDAQ entity to obtain a NASDAQ listing, the issuer must apply for initial inclusion on the applicable NASDAQ market.

The Merger Agreement requires that StemCells use its reasonable best efforts to cause the shares of StemCells common stock to be approved, at or prior to the completion of the Merger, for listing (subject only to notice of issuance) on the NASDAQ Capital Market at and following the completion of the Merger, and the listing of the shares of StemCells common stock issuable pursuant to the Merger Agreement is a condition to both StemCells and Microbot s obligations to complete the Merger.

The listing standards of the NASDAQ Capital Market require, among other things, a $4.00 per share minimum bid upon completion of the Merger. As of the date of the mailing of this proxy statement, StemCells has filed an initial listing application for the NASDAQ Capital Market in connection with the Merger.

The Board of Directors of StemCells expects that a reverse stock split of StemCells common stock will increase the market price of StemCells common stock so that the combined company is able to achieve the initial listing requirements for the NASDAQ Capital Market upon completion of the Merger and thereafter maintain compliance with the NASDAQ minimum bid price listing standard of $1.00 per share. In determining the exact ratio for the reverse stock split, StemCells intends to use a ratio from within the range of one-for-[ ] to one-for-[ ] that would result in a per share price of greater than $4.00 per share following the reverse stock split. Notwithstanding the foregoing, there can be no assurance that the market price per share following the Merger and the reverse stock split will remain in excess of the minimum bid price for a sustained period of time. In addition, there can be no assurance that the StemCells common stock, or the common stock of the combined company following the completion of the Merger, will not be delisted due to a failure to meet other continued listing requirements even if the market price per share of StemCells common stock on a post-reverse-stock-split basis remains in excess of the minimum bid requirement.

Additionally, the Board of Directors of StemCells believes that a listing on the NASDAQ Capital Market for the shares of common stock of the combined company may provide a broader market for the common stock of the combined company and facilitate the use of the common stock of the combined company in financing and other transactions.

Effects of the Reverse Stock Split

Following the effective date of the reverse stock split, each StemCells stockholder will own a reduced number of shares of StemCells common stock. However, the reverse stock split will affect all of the StemCells stockholders uniformly and will not, in and of itself, affect any StemCells stockholder s percentage ownership interests in StemCells, except to the extent that the reverse stock split results in any of the StemCells stockholders owning a fractional share, as described below. Proportionate voting rights and other rights and preferences of the StemCells stockholders will not be affected by the reverse stock split, in and of itself, except to the extent that the reverse stock split results in any of the StemCells stockholders owning a fractional share, as described below. For example, a holder of 2% of the voting power of the outstanding shares of StemCells common stock immediately prior to the reverse

stock split will continue to hold 2% of the voting power of the

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outstanding shares of StemCells common stock immediately following the reverse stock split and immediately prior to the completion of the Merger. The number of StemCells stockholders of record will not be affected by the reverse stock split.

The amendment to the StemCells restated certificate of incorporation to effect the reverse stock split, in and of itself, will not change the number of authorized shares of StemCells common stock. As a result, one of the effects of the reverse stock split will be to effectively increase the proportion of authorized shares of StemCells common stock which are unissued relative to those which are issued. This effective increase will occur even if the proposal to amend the StemCells restated certificate of incorporation to increase the authorized shares of StemCells common stock up to [ ] shares, as described in Proposal No. 4 below, is not approved. This could result in StemCells or the combined company having the ability to issue more shares without further stockholder approval. Neither StemCells nor Microbot have any current plan, commitment, arrangement, understanding, or agreement, written or oral, to issue shares of StemCells common stock, other than (a) in connection with the Merger, (b) to satisfy obligations under outstanding options to purchase shares of StemCells common stock, (c) to satisfy obligations under outstanding options and warrants to purchase Microbot capital stock as such options and warrants are exercised and (d) in connection with the conversion of outstanding convertible promissory notes of Microbot, each of which, to the extent still outstanding at the closing, will be assumed by StemCells in connection with the Merger (as more fully described elsewhere in this proxy statement).

The reverse stock split will reduce the number of shares of StemCells common stock available for issuance under StemCells equity incentive plans in proportion to the reverse stock split ratio selected within the range set forth in this proposal. Under the terms of the outstanding StemCells stock options, the reverse stock split will effect a reduction in the number of shares of StemCells common stock issuable upon exercise of such outstanding stock options in proportion to the reverse stock split ratio and will effect a proportionate increase in the exercise price of such outstanding stock options. In connection with the reverse stock split, the number of shares of StemCells common stock issuable upon exercise of outstanding StemCells stock options will be rounded down to the nearest whole share and no cash payment will be made in lieu of any fractional shares of StemCells common stock that would otherwise be issuable pursuant to such options. The reverse stock split will not in and of itself change the value of a StemCells stock option.

StemCells common stock is currently registered under Section 12(b) of the Exchange Act, and StemCells is subject to the periodic reporting and other requirements of the Exchange Act. The reverse stock split will not affect the registration of StemCells common stock under the Exchange Act. If the reverse stock split is implemented, and the combined company s initial listing application with the NASDAQ Capital Market is approved, StemCells common stock will continue to be reported on the NASDAQ Capital Market under the symbol STEM (although NASDAQ will likely add the letter D to the end of the trading symbol for a period of 20 trading days to indicate that the reverse stock split has occurred). It is expected that following the Merger, the trading symbol of the combined company will be changed. Microbot has requested the ticker symbol MBOT for this purpose.

The following table provides estimates of the number of shares of StemCells common stock authorized, issued and outstanding, reserved for issuance, and authorized but neither issued nor reserved for issuance at the following times:

- prior to the reverse stock split and the completion of the Merger;
- giving effect to a one-for-[ ] reverse stock split but prior to the completion of the Merger; and

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giving effect to a one-for-[ ] reverse stock split but prior to the completion of the Merger.

	Shares Authorized	Shares Issued and Outstanding(1)	Shares Reserved for Issuance(1)	Number of Shares Authorized but Neither Issued nor Reserved for Issuance(1)
Prior to the reverse stock split	[ ]	[ ]	[ ]	[ ]
Giving effect to a one-for-[ ] reverse stock split	[ ]	[ ]	[ ]	[ ]
Giving effect to a one-for-[ ] reverse stock split	[ ]	[ ]	[ ]	[ ]

(1) These estimates assume [ ] shares of StemCells common stock issued and outstanding prior to the completion of the Merger, which was the number of shares of StemCells common stock issued and outstanding as of August 15, 2016, the date of the Merger Agreement, and such estimates do not include the shares of StemCells common stock issuable to Microbot shareholders or advisors in connection with the Merger.

Upon completion of the Merger, each share of Microbot capital stock will be converted into the right to receive a number of shares of StemCells common stock equal to the Exchange Ratio. As of September [ ], 2016, the last practicable date before the printing of this proxy statement, [ ]shares of StemCells common stock were outstanding calculated on a fully diluted basis and [ ] shares of Microbot capital stock were outstanding calculated on a fully diluted basis. Because the Exchange Ratio gives effect to the reverse stock split, if the Merger had been completed as of September [ ], 2016, assuming a reverse stock split ratio of one-for-four, each share of Microbot capital stock would have converted into and been exchanged for the right to receive [ ] shares of StemCells common stock, which would have resulted in an aggregate issuance of [ ] shares of StemCells common stock calculated on a fully diluted basis. If the Merger had been completed as of September [ ], 2016, assuming a reverse stock split ratio of one-for-[ ], each share of Microbot capital stock would have converted into and been exchanged for the right to receive [ ] shares of StemCells common stock, which would have resulted in an aggregate issuance of [ ] shares of StemCells common stock calculated on a fully diluted basis.

Effective Date

The reverse stock split will become effective on the date of filing of the certificate of amendment to the StemCells restated certificate of incorporation with the office of the Secretary of State of the State of Delaware. Except as explained below with respect to fractional shares, on the effective date of the reverse stock split, shares of StemCells common stock issued and outstanding immediately prior to such effective date will be combined and converted, automatically and without any action on the part of the StemCells stockholders, into new shares of StemCells common stock in accordance with the reverse stock split ratio determined prior to the completion of the Merger within the range set forth in this Reverse Stock Split Proposal.

No Payment for Fractional Shares

No fractional shares will be issued in connection with the reverse stock split. StemCells stockholders of record who otherwise would be entitled to receive fractional shares, will experience a rounding down of their fractional share to the nearest whole share. The number of whole shares of StemCells common stock to be issued to any holder of Microbot ordinary shares will be rounded down to the nearest whole number of shares.

Exchange of Stock Certificates

As soon as practicable following the effective date of the reverse stock split, StemCells stockholders will be notified that the reverse stock split has been effected. StemCells transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-reverse stock split shares will be asked

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to surrender to the exchange agent certificates representing pre-reverse stock split shares in exchange for certificates representing post-reverse stock split shares in accordance with the procedures to be set forth in a letter of transmittal to be sent by the exchange agent. No new certificates will be issued to a StemCells stockholder until such stockholder has surrendered such stockholder s outstanding certificate(s), together with the properly completed and executed letter of transmittal to the exchange agent. **StemCells stockholders should not destroy any StemCells stock certificates and should not submit any such certificates until requested to do so.**

Accounting Consequences

The par value per share of StemCells common stock will remain unchanged at $0.01 per share following the reverse stock split. As a result, on the effective date of the reverse stock split, the stated capital on StemCells balance sheet attributable to StemCells common stock will be reduced proportionally, based on the reverse stock split ratio, from its present amount, and the additional paid-in capital account shall be credited with the amount by which the stated capital is reduced. The per share common stock net income or loss and net book value will be increased because there will be fewer shares of StemCells common stock outstanding. StemCells does not anticipate that any other accounting consequences will arise as a result of the reverse stock split.

Material U.S. Federal Income Tax Consequences of the Reverse Stock Split

The following discussion summarizes the anticipated material U.S. federal income tax consequences of the reverse stock split. This summary is based upon current provisions of the Code, existing Treasury Regulations, and current administrative rulings and court decisions, all of which are subject to change and to differing interpretations, possibly with retroactive effect. Any such change could alter the tax consequences to StemCells or the StemCells stockholders, as described in this summary. This summary is not binding on the IRS, and there can be no assurance that the IRS (or a court, in the event of an IRS challenge) will agree with the conclusions stated herein. No ruling has been or will be requested from the IRS in connection with the reverse stock split.

This discussion is not intended to be a complete analysis or description of all potential U.S. federal income tax consequences of the reverse stock split. In addition, the discussion set forth below does not address any U.S. federal non-income tax or any state, local or foreign tax consequences of the reverse stock split and does not address the tax consequences of any transaction other than the reverse stock split. Moreover, this discussion does not address U.S. federal income tax consequences of the reverse stock split that may vary with individual circumstances or that are relevant to StemCells stockholders that are subject to particular rules, including, without limitation, persons whose functional currency is not the U.S. dollar; persons holding StemCells common stock as part of a hedge, straddle, or other risk reduction strategy or as part of a conversion transaction or other integrated investment; persons who are not U.S. Holders (as defined below); persons holding StemCells common stock through non-U.S. brokers or other non-U.S. intermediaries; banks, insurance companies, and other financial institutions; real estate investment trusts or regulated investment companies; brokers, dealers, or traders in securities; partnerships or other entities or arrangements treated as partnerships or pass-through entities for U.S. federal income tax purposes (and investors therein); tax-exempt or governmental entities or organizations; persons deemed to sell StemCells common stock under the constructive sale provisions of the Code; persons who hold or receive StemCells common stock pursuant to the exercise of any employee stock options or otherwise as compensation; persons who hold their StemCells common stock other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment); and individual retirement accounts or other tax-deferred accounts or tax-qualified retirement plans.

This discussion is limited to holders of StemCells common stock that are U.S. Holders. For the purposes of this discussion, a U.S. Holder is a beneficial owner of StemCells common stock that, for U.S. federal income tax purposes, is or is treated as:

an individual who is a citizen or resident of the United States, including without limitation an alien individual who is a lawful permanent resident of the United States or who meets the substantial presence test under Section 7701(b) of the Code;

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a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust if either a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of such trust, or the trust has a valid election in effect under applicable Treasury Regulations to be treated as a United States person for U.S. federal income tax purposes.

If an entity treated as a partnership for U.S. federal income tax purposes holds StemCells common stock, the tax treatment of a partner in the partnership will depend on the status of the partner, the activities of the partnership and certain determinations made at the partner level.

The Reverse Stock Split is expected to qualify as a recapitalization within the meaning of Section 368(a) of the Code. Assuming the reverse stock split so qualifies, the following consequences will result:

no gain or loss will be recognized by StemCells as a result of the reverse stock split;

a StemCells stockholder generally will recognize no gain or loss upon the receipt of StemCells common stock in the reverse stock split;

a StemCells stockholder s aggregate tax basis in the post-reverse stock split shares of StemCells common stock received in the reverse stock split will be equal to the aggregate tax basis of the pre-reverse stock split shares of StemCells common stock exchanged therefor; and

a StemCells stockholder s holding period of the post-reverse stock split shares of StemCells common stock received in the reverse stock split will include such stockholder s holding period of the pre-reverse stock split shares exchanged therefor.

U.S. Holders of StemCells common stock that acquired their shares on different dates and/or at different prices should consult their tax advisors regarding the proper allocation of the tax basis and holding periods of such shares.

StemCells stockholders are advised and expected to consult their own tax advisors regarding the U.S. federal income tax consequences of the reverse stock split in light of their personal circumstances and the consequences of the reverse stock split under U.S. federal non-income tax laws and state, local, and foreign tax laws.

No Appraisal Rights

Under the DGCL, StemCells stockholders are not entitled to appraisal rights with respect to the proposed amendment to the StemCells restated certificate of incorporation to effect the reverse stock split and StemCells will not independently provide the StemCells stockholders with any such rights.

Required Vote; Recommendation of the Board of Directors of StemCells

The approval of this Reverse Stock Split Proposal will be necessary to enable the combined company to maintain the listing on the NASDAQ Capital Market upon completion of the Merger, if StemCells stock price remains below $4.00 per share prior to the Merger.

Approval of this Reverse Stock Split Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting. For purposes of the vote on this Reverse Stock Split Proposal, an

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abstention, a broker non-vote, or a failure to submit a proxy card or vote at the StemCells special meeting will have the same effect as voting AGAINST this Reverse Stock Split Proposal.

THE BOARD OF DIRECTORS OF STEMCELLS UNANIMOUSLY RECOMMENDS A VOTE FOR THE REVERSE STOCK SPLIT PROPOSAL.

Proposal No. 4: To amend StemCells restated certificate of incorporation to increase the number of authorized shares of StemCells common stock from 200,000,000 to [ ] shares

Overview

The Board of Directors of StemCells has unanimously approved a proposal to amend the StemCells restated certificate of incorporation to increase the authorized number of shares of StemCells common stock from 200,000,000 shares to [ ] shares. The Board of Directors of StemCells has recommended that this proposal be presented to the StemCells stockholders for approval. The text of the form of proposed amendment to the StemCells restated certificate of incorporation to increase the authorized shares of StemCells common stock to [ ] shares is included as an attachment to this proxy statement in Annex C.

Reasons for the Increase in Authorized Shares

Although at present, apart from the shares to be issued in connection with the Merger and the transactions contemplated thereby, the Board of Directors of StemCells has no other plans to issue the additional shares of StemCells common stock, it desires to have such shares available to provide additional flexibility to use StemCells capital stock for business and financial purposes in the future. The additional shares may be used for various purposes without further stockholder approval. These purposes may include, among others:

raising capital;

providing equity incentives to employees, officers, and directors; and

establishing strategic relationships with other companies.

The terms of the additional shares of StemCells common stock will be identical to those of the currently outstanding shares of StemCells common stock. Neither StemCells nor Microbot have any current plans, commitments, arrangements, understandings, or agreements, written or oral, to issue shares of StemCells common stock, other than in connection with the Merger and the transactions contemplated thereby, to satisfy obligations under outstanding options to purchase shares of StemCells common stock, and to satisfy obligations under outstanding options and warrants to purchase Microbot capital stock as such options and warrants are exercised (following the completion of the Merger), each of which will be assumed by StemCells in connection with the Merger.

By approving this amendment, the StemCells stockholders will (i) approve a series of amendments to the StemCells restated certificate of incorporation pursuant to which any whole number of shares of StemCells common stock between 200,000,000 and up to [ ] would be authorized for issuance and (ii) authorize the Board of Directors of StemCells to (a) file only one such amendment, and (b) abandon each amendment not selected. In addition, StemCells may elect not to undertake an increase in authorized shares of StemCells common stock.

Required Vote; Recommendation of the Board of Directors of StemCells

Depending on the ratio for the reverse stock split contemplated in connection with the Merger, the approval of this Authorized Shares Increase Proposal may be necessary to enable StemCells to issue the required number of shares of StemCells common stock issuable to Microbot shareholders in connection with the Merger.

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Approval of this Authorized Shares Increase Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter either in person or by proxy at the StemCells special meeting. For purposes of the vote on this Authorized Shares Increase Proposal, an abstention, a broker non-vote, or a failure to submit a proxy card or vote at the StemCells special meeting will have the same effect as voting AGAINST this Authorized Shares Increase Proposal.

THE BOARD OF DIRECTORS OF STEMCELLS UNANIMOUSLY RECOMMENDS A VOTE FOR THE AUTHORIZED SHARES INCREASE PROPOSAL.

Proposal No. 5: To amend StemCells restated certificate of incorporation to change the name of StemCells from StemCells, Inc. to Microbot Medical Inc.

General

The Board of Directors of StemCells has unanimously approved a proposal to amend the StemCells restated certificate of incorporation to change the name of the corporation from StemCells, Inc. to Microbot Medical Inc. immediately upon the completion of the Merger. The Board of Directors of StemCells has recommended that this proposal be presented to the StemCells stockholders for approval. The text of the form of the proposed amendment to the StemCells restated certificate of incorporation is attached to this proxy statement as Annex C.

The primary reason for the corporate name change is to allow for recognition of the combined company s business following the completion of the Merger and to comply with StemCells obligations under the Merger Agreement. The current name will no longer accurately reflect the business of the combined company and the mission of the combined company subsequent to the completion of the Merger.

Insofar as the proposed new corporate name will reflect the combined company s business following the completion of the Merger, the proposed name change and the amendment to the StemCells restated certificate of incorporation, even if approved by the StemCells stockholders at the StemCells special meeting, will only be filed with the office of the Secretary of State of the State of Delaware and, therefore become effective, as, if and when the Merger is completed.

Required Vote; Recommendation of the Board of Directors of StemCells

Approval of this Name Change Proposal requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting. For purposes of the vote on this Name Change Proposal, an abstention, a broker non-vote, or a failure to submit a proxy card or vote at the StemCells special meeting will have the same effect as voting AGAINST this Name Change Proposal.

THE BOARD OF DIRECTORS OF STEMCELLS UNANIMOUSLY RECOMMENDS A VOTE FOR THE NAME CHANGE PROPOSAL.

Proposal No. 6: To approve the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal Nos. 1, 2, 3, 4, or 5

StemCells is asking its stockholders to vote on a proposal to approve the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the StemCells Merger Proposals.

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Required Vote; Recommendation of the Board of Directors of StemCells

Approval of the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the StemCells Merger Proposals requires the affirmative vote of the holders of a majority of the shares of StemCells common stock cast, either in person or by proxy, at the StemCells special meeting. A broker non-vote or a failure to submit a proxy card or vote at the StemCells special meeting will have no effect on the outcome of the vote for this Proposal No. 6. For purposes of the vote on this Proposal No. 6, an abstention will have the same effect as a vote AGAINST such proposal.

THE BOARD OF DIRECTORS OF STEMCELLS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ADJOURNMENT OF THE STEMCELLS SPECIAL MEETING, IF NECESSARY, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF THE STEMCELLS MERGER PROPOSALS.

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UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following information and all other information contained in this proxy statement does not give effect to the proposed reverse stock split described in Proposal No. 3 of this proxy statement.

The following unaudited pro forma combined financial statements were prepared using the acquisition method of accounting under existing U.S. generally accepted accounting principles, or GAAP, and give effect to the Merger between StemCells and Microbot. For accounting purposes, Microbot is considered to be acquiring StemCells in the Merger. Microbot was determined to be the accounting acquirer based upon the terms of the Merger Agreement and other factors including: (i) Microbot security holders are expected to own approximately 80% of the voting interests of the combined company immediately following the closing of the Merger; (ii) directors appointed by Microbot will constitute the board of directors of the combined company; and (iii) employees of Microbot will constitute the entire management of the combined company.

The unaudited pro forma combined balance sheet as of June 30, 2016 assumes that the Merger took place on June 30, 2016 and combines the historical balance sheets of StemCells and Microbot as of June 30, 2016. The unaudited pro forma combined statement of operations for the six months ended June 30, 2016 assumes that the Merger took place as of January 1, 2016, and combines the historical results of StemCells and Microbot for the six months ended June 30, 2016. The unaudited pro forma combined statement of operations for the year ended December 31, 2015 assumes that the Merger took place as of January 1, 2015, and combines the historical results of StemCells and Microbot for the year ended December 31, 2015. The historical financial statements of StemCells and Microbot have been adjusted to give pro forma effect to events that are (i) directly attributable to the Merger, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the combined results.

Because Microbot will be treated as the accounting acquirer, Microbot s assets and liabilities will be recorded at their precombination carrying amounts and the historical operations that are reflected in the financial statements will be those of Microbot. StemCells assets and liabilities will be measured and recognized at their fair values as of the transaction date, and consolidated with the assets, liabilities and results of operations of Microbot after the consummation of the Merger.

The unaudited pro forma combined financial statements are based on the assumptions and adjustments that are described in the accompanying notes. The application of the acquisition method of accounting is dependent upon certain valuations and other studies that have yet to be completed. Accordingly, the pro forma adjustments are preliminary, subject to further revision as additional information becomes available and additional analyses are performed, and have been made solely for the purpose of providing unaudited pro forma combined financial statements. Differences between these preliminary estimates and the final acquisition accounting, expected to be completed after the closing of the Merger, will occur and these differences could have a material impact on the accompanying unaudited pro forma combined financial statements and the combined company s future results of operations and financial position. The actual amounts recorded as of the completion of the Merger may differ materially from the information presented in these unaudited pro forma combined financial statements as a result of the amount, if any, of capital raised by Microbot between entering the Merger Agreement and closing of the Merger; the amount of cash used by StemCells operations between the signing of the Merger Agreement and the closing of the Merger; the timing of closing of the Merger; StemCells stock price at the closing of the Merger; the results of certain valuations and other studies that have yet to be completed; and other changes in StemCells assets and liabilities that occur prior to the completion of the Merger.

The unaudited pro forma combined financial statements do not give effect to the potential impact of current financial conditions, regulatory matters, operating efficiencies or other savings or expenses that may be associated with the integration of the two companies. The unaudited pro forma combined financial statements have been prepared for illustrative purposes only and are not necessarily indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Microbot and StemCells been a combined company during the specified period.

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The unaudited pro forma combined financial statements, including the notes thereto, should be read in conjunction with the separate Microbot and StemCells historical financial statements, and their respective management s discussion and analysis of financial condition and results of operations. Microbot s historical unaudited financial statements for six months ended June 30, 2016 and historical audited financial statements for the year ended December 31, 2015 are included elsewhere in this proxy statement. StemCells historical unaudited consolidated financial statements for the three months ended June 30, 2016 are included in its Quarterly Report on Form 10-Q as filed with the SEC on May 10, 2016 and its historical audited consolidated financial statements for the year ended December 31, 2015 are included in its Annual Report on Form 10-K as filed with the SEC on March 15, 2016.

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Unaudited Pro Forma Consolidated Balance Sheet

June 30, 2016

	StemCells, Inc.	Microbot Medical Ltd.	Pro Forma Merger Adjustment	Pro Forma Combined
Assets:				
Current assets:				
Cash and cash equivalents (A)	$ 2,448,761	$ 840,853	$ 2,000,000	$ 5,289,614
Restricted cash				
Trust account	2,300,000			2,300,000
Other receivables and current assets	87,201	42,924		130,125
Total current assets	4,835,962	883,777	2,000,000	7,719,739
Property and equipment, net		31,911		31,911
Assets held for sale	1,450,000			1,450,000
Goodwill			31,726,446	31,726,446
Other intangible assets, net (B)	38,827		1,461,173	1,500,000
Total assets	$ 6,324,789	$ 915,688	$ 35,187,619	$ 42,428,096
Liabilities and Stockholders Equity (Deficit)				
Current liabilities:				
Accounts payable	$ 4,171,777	$ 8,091	$	$ 4,179,868
Accrued expenses and other current liabilities	2,343,032	205,813		2,548,845
Accrued expenses wind-down expenses	3,943,310			3,943,310
Deferred revenue, current	16,826			16,826
Total current liabilities	10,474,945	213,904		10,668,849
Loan payable (A)			2,000,000	2,000,000
Fair value of warrant liability	591,037			591,037
Deferred revenue, non-current	20,845			20,845
Other long-term liabilities	126,439			126,439
Total liabilities	11,213,266	213,904	2,000,000	13,427,170
Liabilities and Stockholders Deficit				
Stockholders deficit:				
Common stock (C)	117,291	2,616	(117,291)	2,616
Additional paid-in capital (C)	458,679,539	3,119,342	(458,679,539)	32,624,761
			1,206,277(D)	
			28,299,142(E)	

Convertible loan (D)		1,206,277	(1,206,277)	
Accumulated deficit	(463,732,581)	(3,626,451)	463,732,581	(3,626,451)
Accumulated other comprehensive income (C)	47,274		(47,274)	
Total stockholders equity	(4,888,477)	701,784	33,187,619	29,000,926
Total liabilities and stockholders equity (deficit)	$ 6,324,789	$ 915,688	$ 35,187,619	$ 42,428,096

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Unaudited Pro Forma Consolidated Statement of Operations

For the Six Months Ended June 30, 2016

	StemCells Inc.	Microbot Medical Ltd.	Pro Forma Merger Adjustment	Pro Forma Combined
Revenue:				
Revenue from licensing agreements	52,475			52,475
Operating expenses:				
Research and development	8,902,802	262,524		9,165,326