STEMCELLS INC
Form DEFM14A
September 27, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

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

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x 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.

¨ 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

x 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:

Table of Contents

September 26, 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 26, 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 approximately 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. Microbot has requested to trade on The NASDAQ Capital Market under the symbol MBOT.

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-three to one-for-eleven, (iv) a proposal to approve an amendment to StemCells certificate of incorporation to increase the number of authorized shares of StemCells common stock to 220,000,000 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 September 20, 2016, as the record date for determining those stockholders who are entitled to notice of, and to vote at, the special meeting of stockholders

Table of Contents

and any 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 26, 2016, and is first being mailed to StemCells stockholders on or about September 29, 2016.

Table of Contents

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 26, 2016

Time: 2:00 p.m.

Date: October 26, 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-three to one-for-eleven (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 220,000,000 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 special meeting.

Only stockholders of record of StemCells at the close of business on September 20, 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.

Table of Contents

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 26, 2016

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

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 26, 2016, at 39899 Balentine Drive, Suite 200, Newark, CA 94560, or at any adjournment or postponement thereof. Commencing on or about September 29, 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 26, 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.

Table of Contents

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 the combined company s 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.

Table of Contents

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 26.6 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 extraordinary general meeting of shareholders held on September 14, 2016, 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

Table of Contents

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 220,000,000 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.

Table of Contents

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.

Table of Contents

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 26, 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 September 20, 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).

Table of Contents

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 StemCells special 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 20, 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.

Table of Contents

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.

Table of Contents

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.

9

Table of Contents

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 the combined company s capital 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

Table of Contents

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

Table of Contents

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 voted 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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.*

Table of Contents

	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

16

Table of Contents

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)

Table of Contents

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	$

Table of Contents

MARKET PRICE AND DIVIDEND INFORMATION

Our common stock is listed on the NASDAQ Capital Market under the symbol STEM. As of September 20, 2016, the record date, we had 16,259,598 shares of common stock outstanding and approximately 243 registered stockholders. The last reported sales price of our common stock on September 23, 2016, the last full trading day prior to the date of this proxy statement, was $1.43 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	$ 0.33	4.44
Third Quarter (through September 23, 2016)	$ 0.34	2.99

(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.

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

$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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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,

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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;

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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;

Table of Contents

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.

Table of Contents

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

44

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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*).

Table of Contents

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

Table of Contents

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.

Table of Contents

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,

Table of Contents

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;

Table of Contents

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

Table of Contents

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,