

Microbot Medical Inc.
Form 10-Q
May 15, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934.

For the quarterly period ended March 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934.

For the transition period from ____ to ____

Commission file number: 1-16525

MICROBOT MEDICAL INC.

(Name of Registrant in Its Charter)

Delaware **94-3078125**
*(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)*

25 Recreation Park Drive, Unit 108
Hingham, MA 02043
(Address of principal executive offices)

(781) 875-3605

(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 42,120,427 shares of Common Stock, \$0.01 par value at May 14, 2018.

MICROBOT MEDICAL INC. AND SUBSIDIARIES

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MICROBOT MEDICAL INC.**Interim Consolidated Balance Sheets**

U.S. dollars in thousands

(Except share data)

| | Note | As of March 31, 2018 Unaudited | As of December 31, 2017 Audited |
|--|------|--|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$9,460 | \$ 10,787 |
| Restricted cash | | 27 | 27 |
| Other current assets | | 194 | 116 |
| | | 9,681 | 10,930 |
| Fixed assets, net | | 213 | 90 |
| Total assets | | \$9,894 | \$ 11,020 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Trade payables | | \$89 | \$ 78 |
| Accrued liabilities | | 379 | 450 |
| Total current liabilities | | 468 | 528 |
| Derivative warrant liability | 4 | 15 | 28 |
| Total liabilities | | 483 | 556 |
| Commitments and contingencies | 5 | | |
| Temporary equity: | 6 | | |
| Common stock of \$0.01 par value; issued and outstanding: 10,702,838 shares as of March 31, 2018 and December 31, 2017 | | 500 | 500 |
| Shareholders' equity: | | | |
| Preferred stock of \$0.01 par value; Authorized: 1,000,000 shares as of March 31, 2018 and December 31, 2017; issued | 6 | (*) | (*) |

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and outstanding: 2,464 and 4,001 shares as of March 31, 2018 and December 31, 2017, respectively

Common stock of \$0.01 par value;

Authorized: 220,000,000 as of March 31, 2018 and December 31, 2017; issued and outstanding: 31,417,589 and 29,880,289 shares as of March 31, 2018, and

December 31, 2017, respectively

Additional paid-in capital

Accumulated deficit

| | |
|-----------|-----------|
| 421 | 406 |
| 30,583 | 30,182 |
| (22,093) | (20,624) |
| 8,911 | 9,964 |
| \$9,894 | \$ 11,020 |

(*) Less than 1

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

MICROBOT MEDICAL INC.**Interim Consolidated Statements of Comprehensive Loss**

U.S. dollars in thousands

(Except share data)

| | Note | Three months ended March 31, | |
|---|------|---------------------------------|------------|
| | | 2018 | 2017 |
| Research and development expenses, net | | \$383 | \$184 |
| General and administrative expenses | | 1,132 | 1,049 |
| Operating loss | | (1,515) | (1,233) |
| Financing income (expenses), net | | 46 | (74) |
| Net loss | | \$(1,469) | \$(1,307) |
| Net loss per share, basic and diluted | 7 | \$0.03 | \$0.04 |
| Weighted-average number of common shares outstanding, basic and diluted | | 41,453,603 | 27,212,149 |

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

MICROBOT MEDICAL INC.**Interim Consolidated Statements of Shareholder's Equity**

U.S. dollars in thousands

(Except share data)

| | Preferred A Shares | | Common Stock | | Additional paid- in capital | Accumulated deficit | Total shareholders' equity | Temporary equity |
|---|-----------------------|----------|--------------|--------|--------------------------------------|------------------------|----------------------------------|---------------------|
| | Number | Amount | Number | Amount | | | | |
| Balance, December 31, 2016 | 9,736 | \$ (*)) | **26,550,974 | \$ 266 | \$ 14,465 | \$(13,035) | \$ 1,696 | \$ 500 |
| Issuance of Common Stock | - | - | 4,450,000 | 45 | 12,657 | - | 12,702 | - |
| Share-based compensation | - | - | 120,000 | 1 | 478 | - | 479 | - |
| Exercise of options | - | - | 471,794 | 4 | (4) | - | - | - |
| Cashless exercise of warrants | - | - | 359 | (*) | - | - | (*) | - |
| Extinguishment of convertible notes and issuance of preferred A shares | 3,255 | (*) | - | - | 2,676 | - | 2,676 | - |
| Conversion of preferred A shares to common stock | (8,990) | (*) | 8,990,000 | 90 | (90) | - | - | - |
| Net loss | - | - | - | - | - | (7,589) | (7,589) | - |
| Balances, December 31, 2017 | 4,001 | \$ (*)) | **40,583,127 | \$ 406 | \$ 30,182 | \$(20,624) | \$ 9,964 | \$ 500 |
| Share-based compensation | - | - | - | - | 416 | - | 416 | - |
| Conversion of preferred A shares to common stock | (1,537) | (*) | 1,537,300 | 15 | (15) | - | - | - |
| Net loss | - | - | - | - | - | (1,469) | (1,469) | - |
| Balances, March 31, 2018 | 2,464 | \$ (*)) | **42,120,427 | \$ 421 | \$ 30,583 | \$(22,093) | \$ 8,911 | \$ 500 |

(*) Less than 1

** Includes 10,702,838 common stock classified as temporary equity.

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

MICROBOT MEDICAL INC.**Interim Consolidated Statements of Cash Flows**

U.S. dollars in thousands

(Except share data)

| | Three months ended March 31, | |
|---|---------------------------------|------------|
| | 2018 | 2017 |
| OPERATING ACTIVITIES | | |
| Net loss | \$(1,469) | \$(1,307) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 10 | 6 |
| Interest and revaluation of convertible notes, net | - | 169 |
| Changes in fair value of derivative warrant liability | (13) | (88) |
| Share-based compensation expense | 416 | - |
| Changes in assets and liabilities: | | |
| Other receivables | (78) | (104) |
| Other payables and accrued liabilities | (60) | 557 |
| Net cash used in operating activities | (1,194) | (767) |
| INVESTMENT ACTIVITIES | | |
| Purchase of property and equipment | (133) | (22) |
| Net cash used in investing activities | (133) | (22) |
| FINANCING ACTIVITIES | | |
| Outflow in connection with current assets and liabilities acquired in reverse recapitalization, net | - | (208) |
| Issuance of common stock, net of issuance costs | - | 3,290 |
| Net cash provided by financing activities | - | 3,082 |
| Net increase (decrease) in cash and cash equivalents and restricted cash | (1,327) | 2,293 |
| Cash and cash equivalents and restricted cash at the beginning of the period | 10,814 | 2,709 |
| Cash and cash equivalents and restricted cash at the end of the period | \$9,487 | \$5,002 |

Supplemental disclosure of cash flow information:

Non-cash financing transactions:

| | | |
|---|------|--------|
| Cashless exercise of warrants | \$- | \$(*) |
| Conversion of preferred A shares into common shares | \$15 | \$- |

(*) Less than 1

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

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

(Except share data)

NOTE 1 - GENERAL

A. Description of Business

Microbot Medical Inc. (the “Company”) 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. The Company is primarily focused on leveraging its micro-robotic technologies with the goal of improving surgical outcomes for patients.

It was incorporated on August 2, 1988 in the State of Delaware under the name Cellular Transplants, Inc. The original Certificate of Incorporation was restated on February 14, 1992 to change the name of the Company to Cyto Therapeutics, Inc. On May 24, 2000, the Certificate of Incorporation as restated was further amended to change the name of the Company to StemCells, Inc.

On November 28, 2016, the Company consummated a transaction pursuant to an Agreement and Plan of Merger, dated August 15, 2016, with Microbot Medical Ltd., a private medical device company organized under the laws of the State of Israel (“Microbot Israel”), and C&RD Israel Ltd. (“Merger Sub”), an Israeli corporation and wholly-owned subsidiary of the Company, whereby Merger Sub merged with and into Microbot Israel and Microbot Israel surviving as a wholly-owned subsidiary of the Company (the “Merger”). Pursuant to the terms of the Merger, at the effective time of the Merger, each outstanding ordinary share of Microbot Israel capital stock was converted into the right to receive approximately 2.9 shares of the Company’s common stock, par value \$0.01 per share, after giving effect to a one for nine reverse stock split (the “Reverse Stock Split”), for an aggregate of 26,550,974 shares of Company’s common Stock issued to the former Microbot Israel shareholders. In addition, all outstanding options to purchase the ordinary shares of Microbot Israel were assumed by the Company and converted into options to purchase an aggregate of 2,614,916 shares of the Company’s common stock. Additionally, the Company issued an aggregate of 7,802,639 restricted shares of its common stock or rights to receive the Company’s common stock, to certain advisers. On the same day and in connection with the Merger, the Company changed its name from StemCells, Inc. to Microbot Medical Inc. On November 29, 2016, the Company’s common stock began trading on the Nasdaq Capital Market under the symbol “MBOT”.

As a result of the Merger, Microbot Israel became a wholly owned subsidiary of the Company. The transaction between the Company and Microbot Israel was accounted for as a reverse recapitalization. As the shareholders of Microbot Israel received the largest ownership interest in the Company, Microbot Israel was determined to be the “accounting acquirer” in the reverse recapitalization. As a result, the historical financial statements of the Company were replaced with the historical financial statements of Microbot Israel. Unless indicated otherwise, pre-acquisition share, options and warrants data included in these financial statements is retroactively adjusted to reflect the Reverse Stock Split and the Merger.

Prior to the Merger, the Company was a biopharmaceutical company that conducted research, development, and commercialization of stem cell therapeutics and related technologies. The sale of substantially all material assets relating to the stem cell business were completed on November 29, 2016.

The Company and its subsidiaries are collectively referred to as the “Company”. “StemCells” or “StemCells, Inc.” refers to the Company prior to the Merger.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

B. Risk Factors

To date, the Company has not generated revenues from its operations. As of March 31, 2018, the Company had cash and cash equivalent balance of approximately \$9,500, which management believes is sufficient to fund its operations for more than 12 months from the date of issuance of these financial statements and sufficient to fund its operations necessary to continue development activities of its current proposed products. Due to continuing research and development activities, the Company expects to continue to incur net losses into the foreseeable future. The Company plans to continue to fund its current operations as well as other development activities relating to additional product candidates, through future issuances of either debt and/or equity securities and possibly additional grants from the Israeli Innovation Authority and others. The Company's ability to raise additional capital in the equity and debt markets is dependent on a number of factors, including, but not limited to, the market demand for the Company's stock, which itself is subject to a number of development and business risks and uncertainties, as well as the uncertainty that the Company would be able to raise such additional capital at a price or on terms that are favorable to the Company.

C. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions pertaining to transactions and matters whose ultimate effect on the financial statements cannot precisely be determined at the time of financial statements preparation. Although these estimates are based on management's best judgment, actual results may differ from these estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are as follows:

Unaudited Interim Financial Statements

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of U.S. Securities and Exchange Commission (“SEC”) regulations. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included (consisting only of normal recurring adjustments except as otherwise discussed).

Operating results for the three-month period ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ended December 31, 2018.

Significant Accounting Policies

The significant accounting policies followed in the preparation of these unaudited interim condensed consolidated financial statements are identical to those applied in the preparation of the latest annual audited financial statements.

Recent Accounting Standards

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers” to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The ASU supersedes most current revenue recognition guidance, including industry-specific guidance. The FASB subsequently issued ASU 2015-14, ASU 2016-08 and ASU 2016-12, which clarified the guidance, provided scope improvements and amended the effective date of ASU 2014-09. As a result, ASU 2014-09 becomes effective for the Company in the first quarter of 2018, with early adoption permitted. The adoption of this standard did not have a material impact on our interim consolidated statements of comprehensive loss since the Company has not yet generated revenues to date.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

In February 2016, the FASB issued ASU 2016-02 “Leases” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For operating leases, the ASU requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The ASU retains the current accounting for lessors and does not make significant changes to the recognition, measurement, and presentation of expenses and cash flows by a lessee. This ASU is effective for the Company in the first quarter of 2019, with early adoption permitted. The Company continues to evaluate the effect of the adoption of this ASU and expects the adoption will result in an increase in the assets and liabilities on the consolidated balance sheets for operating leases (refer to Note 5) and will likely have an insignificant impact on the consolidated statements of comprehensive loss.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses” to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. The ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. This ASU is effective for the Company in the first quarter of 2020, with early adoption permitted. The Company is currently evaluating the effect the adoption of this ASU will have on its consolidated financial statements.

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting,” which clarifies when a change to terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the vesting condition, fair value or the award classification is not the same both before and after a change to the terms and conditions of the award. The new guidance is effective for the Company on a prospective basis beginning on January 1, 2018 and early adoption is permitted. The Company has not changed terms or conditions of share-based payment awards, and therefore, this guidance did not have an impact on the Company’s interim consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, which includes Part I “Accounting for Certain Financial Instruments with Down Round Features” and Part II “Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-Controlling Interests with a Scope Exception”. The ASU makes limited changes to the Board’s guidance on classifying certain financial instruments as either liabilities or equity. The ASU’s objective is to improve (1) the accounting for instruments with “down-round” provisions and (2) the readability of the guidance in ASC 480 on distinguishing liabilities from equity by replacing the

indefinite deferral of certain pending content with scope exceptions. The ASU is effective for the Company in the first quarter of 2019, with early adoption permitted. The Company has derivative warranty liabilities as discussed in Note 4 which upon adoption of the new standard are expected to be classified as equity.

NOTE 3 - CONVERTIBLE LOAN FROM SHAREHOLDERS

On October 8, 2015, Microbot Israel entered into a convertible loan agreement with several investors who were also existing shareholders. According to the loan agreement, Microbot Israel received an amount of \$419. The loan bore interest of 10% and was converted to both equity shares and preferred shares warrants of Microbot Israel on the nine-month anniversary of the loan. The Company concluded the conversion feature is not a Beneficial Conversion Feature pursuant to the provisions of ASC 470-20, "Debt with Conversion and Other Options". Accordingly, the proceeds were recorded in liabilities in their entirety at the date of issuance.

On July 7, 2016, the outstanding principal and accrued interest were converted into 1,315,023 Series A preferred shares, of Microbot Israel (the "Series A Preferred Shares") and 1,188,275 warrants to purchase the Series A Preferred Shares, at an exercise price of \$1.00 per share. The preferred shares warrants were exercised in full in September 2016 for total gross proceeds to Microbot Israel of \$410.

On May 11, 2016, Microbot Israel entered into a convertible loan agreement with several investors who were also existing shareholders. The loan bore interest at a fixed rate of 10% per annum beginning on the issuance date.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

At maturity, all of the outstanding principal and accrued interest was converted into Microbot Israel's ordinary shares subject to the conversion or default events specified in the loan agreement, based on a conversion price that represents a 20% discount on Microbot Israel's valuation upon such default events.

On November 28, 2016, upon the consummation of the Merger, the loan was converted into an aggregate of 2,242,939 shares of Company's common stock.

The Company concluded the value of the loan is predominantly based on a fixed monetary amount known at the date of issuance as represented by the 20% discount on the Company's valuation. Accordingly, the loan was classified as debt and was measured at its fair value, pursuant to the provisions of ASC 480-10, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity".

The fair value of the loan was measured based on observable inputs as the fixed monetary value of the variable number of shares to be issued upon conversion (level 2 measurement).

Secured Note to Alpha Capital Anstalt

On August 15, 2016, concurrent with the execution of the Agreement and Plan of Merger (see Note 1A), StemCells Inc. issued a 6.0% secured note (the "Note") to Alpha Capital Anstalt ("Alpha Capital"), in the principal amount of \$2,000, for value received, payable upon the earlier of (i) 30 days following the consummation of the Merger and (ii) December 31, 2016. Proceeds from the Note were used for the payment of costs and expenses in connection with the Merger and operational expenses leading to such closing.

The Note bore interest at 6% per annum, payable monthly in arrears on the first of the month, beginning on January 1, 2017 until the principal amount is paid in full. In addition, the Note was secured by a first priority security interest in all of the Company's intellectual property and certain other general assets pursuant to a Security Agreement

Securities Exchange Agreement with Alpha Capital

As of the effective time of the Merger, the Company entered into a Securities Exchange Agreement (the “Exchange Agreement”) with Alpha Capital, providing for the issuance to Alpha Capital of a convertible promissory note by the Company (the “Convertible Note”) in a principal amount of \$2,029, which is equal to the principal and accrued interest under the Note, in exchange for (a) the full satisfaction, termination and cancellation of the Note and (b) the release and termination of the Security Agreement and the first priority security interest granted thereunder.

The Convertible Note was convertible into the Company’s Common Stock any time after November 28, 2017 and until the maturity date of November 28, 2019, based on a conversion price of \$0.64, subject to adjustments as provided in the Exchange Agreement.

Pursuant to the terms of the Convertible Note, the Company was obligated to pay interest on the outstanding principal amount owed under the Convertible Note at a fixed rate per annum of 6.0%, payable at maturity or earlier upon conversion. The Exchange Agreement contained customary representations and warranties and usual and customary affirmative and negative covenants. The Convertible Note also contained certain customary events of default.

As the Exchange Agreement represented the consummation of the original intent of the Company and Alpha Capital, as of the date of execution of the Merger Agreement (August 2016), to enter into a \$2 million convertible note sale transaction, upon the consummation of the Merger, the Company accounted for the Convertible Note in accordance with such economic substance, as if it had been issued for a cash consideration equal to the principal and accrued interest on the Note, as of the effective date of the Merger, in the amount of \$2,029 (the “Assumed Consideration”), which is equal to the principal amount of the Convertible Note as determined in the Exchange Agreement.

MICROBOT MEDICAL INC.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****U.S. dollars in thousands****(Except share data)**

The Company concluded the conversion feature of the Convertible Note, based on the commitment date of November 28 2016 (the Exchange Agreement date), is a Beneficial Conversion Feature pursuant to the provisions of ASC 470-20, "Debt with Conversion and Other Options". Accordingly, \$2,029 of the Assumed Consideration was recorded in equity with a corresponding discount on the Convertible Note, to be amortized over its term through maturity.

See also Note 6 – Securities Exchange Agreement with Alpha Capital.

NOTE 4 - DERIVATIVE WARRANT LIABILITIES

As part of StemCell's obligations under the Merger Agreement, in August 2016, StemCells negotiated with certain institutional holders of its 2016 Series A and Series B Warrants, issued by prior to the Merger, to have such holders surrender their 2016 Series B Warrants in exchange for a reduced exercise price of \$0.30 per share on their existing 2016 Series A Warrants and the elimination of the anti-dilution price protection in the 2016 Series A Warrants. As a result, the exercise price for all outstanding 2011 Series A Warrants and 2016 Series A and Series B Warrants was reset to \$0.30 per share. Subsequent to the reset of the exercise price, an aggregate of 531,814 (from an outstanding aggregate of 578,081) 2011 Series A Warrants were exercised. For the exercise of these warrants, the Company issued 531,814 shares of its common stock prior to the Merger.

The remaining outstanding warrants and terms as of March 31, 2018 and December 31, 2017 is as follows:

| Issuance date | Outstanding as of December 31, 2017 | Outstanding as of March 31, 2018 | Exercise Price | Exercisable as of March 31, 2018 | Exercisable Through |
|-----------------|--|---|-------------------|---|---------------------|
| Series A (2013) | 57,814 | 57,814 | \$194.40 | 57,814 | October 2018 |
| Series A (2013) | 2,718 | 2,718 | \$183.60 | 2,718 | April 2023 |
| Series A (2015) | 10,139 | 10,139 | \$91.80 | 10,139 | April 2020 |

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| | | | | | |
|---------------------|--------|--------|--------|--------|------------|
| Series A (2016) (a) | 9,279 | - | \$- | - | March 2018 |
| Series B (2016) (a) | 41,116 | 41,116 | \$2.70 | 41,116 | March 2022 |

These warrants contain a full ratchet anti-dilution price protection so that, in most situations upon the issuance of any common stock or securities convertible into common stock at a price below the then-existing exercise price of the outstanding warrants, the warrant exercise price will be reset to the lower common stock sales price. As such a) anti-dilution price protection does not meet the specific conditions for equity classification, the Company is required to classify the fair value of these warrants as a liability, with changes in fair value to be recorded as income (loss) due to change in fair value of warrant liability. The estimated fair value of our warrant liability at March 31, 2018 and December 31, 2017, was approximately \$15 and \$28, respectively.

As quoted prices in active markets for identical or similar warrants are not available, the Company uses directly observable inputs in the valuation of its derivative warrant liabilities (level 2 measurement).

The Company uses the Black-Scholes valuation model to estimate fair value of these warrants. In using this model, the Company makes certain assumptions about risk-free interest rates, dividend yields, volatility, expected term of the warrants and other assumptions. Risk-free interest rates are derived from the yield on U.S. Treasury debt securities. Dividend yields are based on our historical dividend payments, which have been zero to date. Volatility is estimated from the historical volatility of our common stock as traded on NASDAQ. The expected term of the warrants is based on the time to expiration of the warrants from the date of measurement.

In March 2017, an institutional holder executed a cashless exercise of 768 warrants and 359 shares of Common Stock were issued in connection therewith.

MICROBOT MEDICAL INC.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

U.S. dollars in thousands

(Except share data)

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities as of March 31, 2018 and December 31, 2017:

| | Series A (2011) | Series A (2013) | Series A (2013) | Series A (2015) | Series A (2016) | Series B (2016) | Total |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------|
| Balances at December 31, 2017 | \$ - | \$ - | \$ - | \$ - | \$ (*) | \$ 28 | \$ 28 |
| Exercised | - | - | - | - | - | - | - |
| Cancelled | - | - | - | - | - | - | - |
| Changes in fair value | - | - | - | - | (*) | (13) | (13) |
| Balances at March 31, 2018 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 15 | \$ 15 |

(*) Less than 1

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities as of March 31, 2018 and December 31, 2017:

| | As of March 31, 2018 | As of December 31, 2017 | |
|--------------------------------|----------------------------|----------------------------|-----------------------|
| | Series A B (2016) | Series A B (2016) | Series B (2016) |
| Share price | — \$ 0.69 | \$ 1.02 | \$ 1.02 |
| Exercise price | — \$ 2.70 | \$ 2.70 | \$ 2.70 |
| Expected volatility | — 109 % | 60 % | 119 % |
| Risk-free interest | — 2.39 % | 1.24 % | 1.89 % |
| Dividend yield | — — | — | — |
| Expected life of up to (years) | — 4.00 | 0.25 | 4.25 |

Activity in such liabilities measured on a recurring basis is as follows:

| | Derivative Warrant Liabilities |
|-------------------------|--------------------------------------|
| As of December 31, 2017 | \$ 28 |
| Revaluation of warrants | (13) |
| As of March 31, 2018 | \$ 15 |

| | Derivative Warrant Liabilities |
|-------------------------|--------------------------------------|
| As of December 31, 2016 | \$ 313 |
| Revaluation of warrants | (285) |
| Exercise warrants | (*) |
| As of December 31, 2017 | \$ 28 |

(*) Less than 1

In accordance with ASC-820-10-50-2(g), the Company has performed a sensitivity analysis of the derivative warrant liabilities of the Company which are classified as level 3 financial instruments. The Company recalculated the value of warrants by applying a +/- 5% changes to the input variables in the Black-Scholes model that vary overtime, namely, the volatility and the risk-free rate. A 5.0% decrease in volatility would decrease the value of the warrants to \$1; a 5.0% increase in volatility would increase the value of the warrants to \$1. A 5.0% decrease or increase in the risk-free rate would not have materially changed the value of the warrants; the value of the warrants is not strongly correlated with small changes in interest rates.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

NOTE 5 - COMMITMENTS AND CONTIGENCIES

Microbot Israel obtained from the Israeli Innovation Authority (“IIA”) grants for participation in research and development for the years 2013 through March 31, 2018 in the total amount of approximately \$1,310 and, in return, Microbot Israel is obligated to pay royalties amounting to 3% of its future sales up to the amount of the grant. The grant is linked to the exchange rate of the dollar to the New Israeli Shekel and bears interest of Libor per annum.

The repayment of the grants is contingent upon the successful completion of the Company’s research and development programs and generating sales. The Company has no obligation to repay these grants, if the project fails, is unsuccessful or aborted or if no sales are generated. The financial risk is assumed completely by the Government of Israel. The grants are received from the Government on a project-by-project basis.

Microbot Israel signed an agreement with the Technion Research and Development Foundation (“TRDF”) in June 2012 by which TRDF transferred to Microbot Israel a global, exclusive, royalty-bearing license. As partial consideration for the license, Microbot Israel shall pay TRDF royalties on net sales (between 1.5%-3%) and on sublicense income as detailed in the agreement.

Lease Agreements

In December 2016, the Company entered into car lease agreements, which will end on December 31, 2019. According to the lease agreement, the monthly car lease payment is approximately \$2.5.

In May 2017, the Company entered into an office lease agreement effective from February 1, 2018, with a term ending on December 31, 2020. According to the lease agreement, the monthly office lease payment is approximately \$14.

Compensation Liability

The Company incurred compensation commitments of approximately \$400 to a former executive that management estimates as remote that this amount will ever be paid out and therefore is not reflected in these consolidated financial statements.

Contract Research Agreement

On January 27, 2017, the Company entered into a Contract Research Agreement (the “Research Agreement”) with The Washington University (“Washington U.”), pursuant to which the parties are collaborating to determine the effectiveness of the Company’s self-cleaning shunt.

The study in Washington U. includes several phases. The first phase (initial research) was completed. The parties are in the final stage of planning the next phase, including the related various costs. Pursuant to the Research Agreement, all rights, title and interest in the data, information and results obtained or arrived at by Washington U. in the performance of its services under the Research Agreement, as well as any patentable inventions obtained or arrived at in the performance of such services, will be jointly owned by the Company and Washington U., and each will have full right to practice and grant licenses in joint inventions. Additionally, Washington U. granted to the Company: (a) a non-exclusive, worldwide, royalty-free, fully paid-up, perpetual and irrevocable license to use and practice patentable inventions (other than joint inventions and improvements to Washington U.’s animal models) obtained or arrived at by Washington U. in the provision of its services under the Research Agreement (“University Inventions”) with respect to the self-cleaning shunt; and (b) an exclusive option to obtain an exclusive worldwide license in University Inventions, on terms to be negotiated between the parties.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

Litigation

The Company is named as the defendant in a lawsuit, captioned Sabby Healthcare Master Fund Ltd. and Sabby Volatility Warrant Master Fund Ltd., Plaintiffs, against Microbot Medical Inc., Defendant, pending in the Supreme Court of the State of New York, County of New York. The complaint alleges, among other things, that the Company breached multiple representations and warranties contained in the Securities Purchase Agreement (the "SPA") related to the June 8, 2017 equity financing of the Company (the "Financing"), of which the Plaintiffs participated. The complaint seeks rescission of the SPA and return of the Plaintiffs' \$3,375 purchase price with respect to the Financing, and damages in an amount to be determined at trial, but alleged to exceed \$1 million. The parties presently are engaged in discovery.

Due to the early stage in the litigation process, management is unable to assess the likelihood of the claim and the amount of potential damages, if any, to be awarded. Management believes that the claims made against it are without merit and intends to vigorously defend itself against these claims.

Tolling and Standstill Agreement

On April 4, 2018, the Company entered into a Tolling and Standstill Agreement (the "Tolling Agreement") with Empery Asset Master, Ltd., Empery Tax Efficient LP, Empery Tax Efficient II LP, and Hudson Bay Master Fund, Ltd., the other investors in the Financing (the "Other Investors"). Pursuant to the Tolling Agreement, among other things, (a) the Other Investors agree not to bring any claims against the Company arising out of the Matter, (b) the parties agree that if the Company reaches an agreement to settle the claims asserted by the Sabby Funds in the above suit, the Company will provide the same settlement terms on a pro rata basis to the Other Investors, and the Other Investors will either accept same or waive all of their claims and (c) the parties froze in time the rights and privileges of each party as of the effective date of the Tolling Agreement, until (i) an agreement to settle the suit is executed; (ii) a judgment in the suit is obtained; or (iii) the suit is otherwise dismissed with prejudice.

Agreement with CardioSert Ltd.

On January 4, 2018, Microbot Israel entered into an agreement with CardioSert Ltd. (“CardioSert”) to acquire certain patent-protected technology owned by CardioSert (the “Technology”).

Pursuant to the Agreement, Microbot Israel made an initial payment of \$50 to CardioSert and has 90-days to elect to complete the acquisition. At the end of the 90-day period, at Microbot Israel’s sole option, CardioSert shall assign and transfer the Technology to Microbot Israel and Microbot Israel shall pay to CardioSert additional amounts and securities as determined in the agreement.

The agreement may be terminated by Microbot Israel at any time for convenience upon 90-days’ notice. The agreement may be terminated by CardioSert in case the first commercial sale does not occur by the third anniversary of the date of signing of the agreement except in the event that Microbot Israel has invested more than \$2,000 in certain development stages, or the first commercial sale does not occur within 50 months. In each of the above termination events, or in case of breach by Microbot Israel, CardioSert shall have the right to buy back the Technology from Microbot Israel for \$1.00, upon 60 days prior written notice, but only 1 year after such termination. Additionally, the agreement may be terminated by either party upon breach of the other (subject to cure).

CardioSert agreed to assist Microbot Israel in the development of the Technology for a minimum of one year, for a monthly consultation fee of NIS40,000 covering up to 60 consulting hours per month.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

NOTE 6 - SHARE CAPITAL

Each share of the Series A Convertible Preferred Stock, par value \$0.01 per share, issued by the Company in December 2016 and in May 2017 (the "Series A Convertible Preferred Stock"), is convertible, at the option of the holder, into 1,000 shares of Common Stock, and confer upon the holder dividend rights on an as converted basis.

Exercise of Warrants

On March 2017, an institutional holder exercised, in a cashless transaction, 768 warrants and 359 shares of Common Stock were issued in connection therewith.

Share Capital Developments

The authorized capital stock consists of 221,000,000 shares of capital stock, which consists of 220,000,000 shares of Common Stock and 1,000,000 shares of undesignated preferred stock, par value \$0.01 (the "Preferred Stock"). As of March 31, 2018, the Company had 42,120,127 shares of Common Stock issued and outstanding, and 2,464 shares of Series A Convertible Preferred Stock issued and outstanding.

On November 28, 2016, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware to (i) effect the Reverse Stock Split, (ii) change its name from "StemCells, Inc." to "Microbot Medical Inc." and (iii) increase the number of authorized shares of the Common Stock from 200,000,000 to 220,000,000 shares (the "Certificate of Amendment").

As a result of the Reverse Stock Split, the number of issued and outstanding shares of the Common Stock immediately prior to the Reverse Stock Split were reduced into a smaller number of shares, such that every nine shares of the Common Stock held by a stockholder immediately prior to the Reverse Stock Split were combined and reclassified into one share of the Common Stock.

Immediately following the Reverse Stock Split and the Merger, there were 36,254,240 shares of the Common Stock issued and outstanding, which included certain rights to receive shares of Common Stock or equivalent securities but excludes shares underlying outstanding stock options and warrants and the Convertible Note.

On December 27, 2016, the Company exchanged 9,735,925 shares or rights to acquire shares of its Common Stock, for 9,736 shares of a newly designated class of Series A Convertible Preferred Stock.

On January 5, 2017, the Company entered into a definitive securities purchase agreement with an institutional investor (the "Purchaser") for the purchase and sale of an aggregate of 700,000 shares of Common Stock in a registered direct offering for \$5.00 per share or gross proceeds of \$3,500. The Company paid the placement agent a fee of \$210 plus reimbursement of out-of-pocket expenses, as well as other offering-related expenses.

On June 5, 2017, the Company entered into a Securities Purchase Agreement with certain institutional investors (the "Investors") providing for the issuance and sale by the Company to the Investors of an aggregate of 3,750,000 shares of Common Stock, at a purchase price per share of \$2.70. The gross proceeds to the Company was \$10,125 before deducting placement agent fees and offering expenses of \$922.

Employee Stock Option Grant

In September 2014, Microbot Israel's board of directors approved a grant of 403,592 stock options (1,167,693 stock options as retroactively adjusted to reflect the Merger) to its CEO, through MEDX Venture Group LLC. Each option was exercisable into an ordinary share, at an exercise price of \$0.8 (\$0.28 as retroactively adjusted to reflect the Merger). The stock options were fully vested at the date of grant.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

On May 2, 2016, Microbot Israel's board of directors approved a grant of 500,000 stock options (1,447,223 as retroactively adjusted to reflect the Merger) to certain of its employees and directors. Each stock option was exercisable into an ordinary share, NIS 0.001 par value, of Microbot Israel, at an exercise price equal to the ordinary share's par value. The stock options were fully vested at the date of grant. As a result, the Company recognized compensation expenses in the amount of \$675 included in general and administrative expenses. As the exercise price of the stock options is nominal, Microbot Israel estimated the fair value of the options as equal to the Company's share price of \$1.35 (\$0.47 as retroactively adjusted to reflect the Merger) at the date of grant.

On September 12, 2017, the Company adopted the 2017 Equity Incentive Plan (the "Plan"), which Plan authorizes, among other things, the grant of options to purchase shares of Common Stock to directors, officers and employees of the Company and to other individuals.

On September 14, 2017, the board of directors approved a grant of stock options to purchase an aggregate of up to 1,812,712 shares of Common Stock to Mr. Harel Gadot, the Company's Chairman of the Board, President and CEO, at an exercise price per share of \$1.05. The stock options vest over a period of 3-5 years as outlined in the option agreements. As a result, the Company recognized compensation expenses in the amount of \$219 and \$0 included in general and administrative expenses for the periods ended March 31, 2018 and 2017, respectively.

On September 14, 2017, the board of directors approved a grant of stock options to purchase an aggregate of up to 1,087,627 shares of Common Stock to Mr. Hezi Himelfarb, the company's General Manager, COO and a member of the Board, at an exercise price per share of \$1.29. The grant was subject to the Israeli Tax Authority's approval of the plan which occurred on October 14, 2017. In accordance with the option agreement, the options vest for period of 3 years starting from the grand date. As a result, the Company recognized compensation expenses in the amount of \$108 and \$0 included in general and administrative expenses for the periods ended March 31, 2018 and 2017, respectively.

On December 6, 2017, the board of directors approved a grant of 190,475 stock options to purchase an aggregate of up to 190,475 shares of Common Stock to certain of its directors, at an exercise price per share of \$1.05. The stock options vest over a period of 3 years as outlined in the option agreements. As a result, the Company recognized compensation expenses in the amount of \$15 and \$0 included in general and administrative expenses for the periods ended March 31, 2018 and 2017, respectively.

On December 28, 2017, the board of directors approved a grant of 990,543 stock options to purchase an aggregate of up to 990,543 shares of Common Stock to certain of its employees, at an exercise price per share of \$1.02. The stock options vest over a period of 3 years as outlined in the option agreements. As a result, the Company recognized compensation expenses in the amount of \$71 and \$0 included in general and administrative expenses and research and development expenses for the periods ended March 31, 2018 and 2017, respectively.

On November, 2017, certain employees and consultant exercised 471,794 options to 471,794 ordinary shares at exercise price of 0.001 NIS.

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

| | For the three months ended March 31, 2018 | | |
|--|---|---------------------------------|---------------------------|
| | Number of stock options | Weighted average exercise price | Aggregate intrinsic value |
| Outstanding at beginning of period | 6,224,479 | \$ 0.78 | \$ 1,859 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Cancelled | - | - | - |
| Outstanding at end of period | 6,224,479 | \$ 0.78 | \$ 1,142 |
| Vested and expected-to-vest at end of period | 2,477,252 | \$ 0.13 | \$ 1,031 |

MICROBOT MEDICAL INC.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

U.S. dollars in thousands

(Except share data)

| | For the year ended December 31, 2017 | | |
|--|---|--|---------------------------------|
| | Number of stock options | Weighted average exercise price | Aggregate intrinsic value |
| Outstanding at beginning of period | 2,614,916 | \$ 0.13 | \$ 3,739 |
| Granted | 4,081,357 | 1.1 | - |
| Exercised | (471,794) | - | - |
| Cancelled | - | - | - |
| Outstanding at end of period | 6,224,479 | \$ 0.78 | \$ 1,859 |
| Vested and expected-to-vest at end of period | 2,143,122 | \$ 0.13 | \$ 1,375 |

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the fair market value of the Common Stock and the exercise price, multiplied by the number of in-the-money stock options on those dates that would have been received by the stock option holders had all stock option holders exercised their stock options on those dates.) as of March 31, 2018 and December 31, 2017 respectively,

The stock options outstanding as of March 31, 2018 and December 31, 2017, separated by exercise prices, are as follows:

| Exercise price | Stock options outstanding as of March 31, 2018 | Stock options outstanding as of December 31, 2017 | Weighted average remaining contractual life – years as of March 31, 2018 | Weighted average remaining contractual life – years as of December 31, 2017 | Stock options exercisable as of March 31, 2018 | Stock options exercisable as of December 31, 2017 |
|----------------|--|---|--|---|--|---|
| \$ 0.28 | 1,167,693 | 1,167,693 | 7.75 | 8.0 | 1,167,693 | 1,167,693 |
| 1.05 | 2,003,187 | 2,003,187 | 9.50 | 9.75 | 334,130 | - |

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| | | | | | | |
|------|-----------|-----------|------|------|-----------|-----------|
| 1.29 | 1,087,627 | 1,087,627 | 9.50 | 9.75 | - | - |
| 1.02 | 990,543 | 990,543 | 9.75 | 10 | - | - |
| (*) | 975,429 | 975,429 | 8.50 | 8.75 | 975,429 | 975,429 |
| | 6,224,479 | 6,224,479 | 9.05 | 9.3 | 2,477,252 | 2,143,122 |

(*) Less than 1

Compensation expense recorded by the Company in respect of its stock-based employee compensation awards in accordance with ASC 718-10 for the three-month ended March 31, 2018 and the year ended December 2017 was \$ 416 and \$ 254, respectively.

MICROBOT MEDICAL INC.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****U.S. dollars in thousands****(Except share data)**

The fair value of the stock options is estimated at the date of grant using Black-Scholes options pricing model with the following weighted-average assumptions:

| | Three months ended March 31, 2018 | % | Year ended December 31, 2017 | % |
|--------------------------------|--|---|---------------------------------------|---|
| Expected volatility | 109 | % | 122.5 | % |
| Risk-free interest | 2.39 | % | 1.64 | % |
| Dividend yield | 0 | % | 0 | % |
| Expected life of up to (years) | 2.75 | | 6.25 | |

Shares issued to service provider

In connection with the Merger, the Company issued an aggregate of 7,802,639 restricted shares of its Common Stock to certain advisors. The fair value of the award of approximately \$10,000 was estimated based on the share price of the Common Stock of \$1.28 as of the date of grant. The portion of the expense in excess of the cash and other current assets acquired in the Merger, in the amount of \$7,300 was included in general and administrative expenses in the Statements of Comprehensive Loss.

During 2017, the Company issued an aggregate of 120,000 nonrefundable shares of Common Stock to a consultant as part of investor relations services. The Company recorded expenses of approximately \$225 with respect to the issuance of these shares included in general and administrative expenses.

Securities Exchange Agreement with Alpha Capital

On December 16, 2016, the Company entered into a Securities Exchange Agreement with Alpha Capital, pursuant to which Alpha Capital exchanged 9,736,000 shares of common stock or rights to acquire shares of the common stock held by it, for 9,736 shares of a newly designated class of Series A Convertible Preferred Stock, par value \$0.01 per share (the "Preferred Stock"). The common stock and common stock underlying the rights to acquire common stock include all of the shares of common stock issued or issuable to Alpha Capital pursuant to the Merger. The 9,735,925 shares of common stock and the rights to acquire common stock were cancelled and the Company's issued and outstanding shares of Common Stock were reduced to 26,518,315.

On May 9, 2017, the Company entered into a Securities Exchange Agreement with Alpha Capital pursuant to which the Company agreed to issue 3,254 shares of the Series A Convertible Preferred Stock, in exchange for the full satisfaction, termination and cancellation of the outstanding 6% convertible promissory note of the Company in the principal amount of approximately \$2,029 issued on November 28, 2016 and held by Alpha Capital. The Series A Convertible Preferred Stock is the same series of securities as the Company's existing Series A Convertible Preferred Stock issued in December 2016. As a result of the extinguishment of the convertible note and issuance of the preferred shares, the Company recorded a financial loss in the amount of \$2,360.

During the year 2017, the holder of the Series A Convertible Preferred Stock converted 8,990 shares of the Series A Convertible Preferred Stock for 8,990,000 shares of Common Stock, pursuant to the terms of conversion of the Series A Convertible Preferred Stock.

For the three-month ended March 31, 2018, the holder of the Series A Convertible Preferred Stock converted 1,537 shares of the Series A Convertible Preferred Stock for 1,537,000 shares of Common Stock, pursuant to the terms of conversion of the Series A Convertible Preferred Stock.

Repurchase of Shares

The Company intends to enter into a definitive agreement with up to three Israeli shareholders, one of which is a director of the Company, that were former shareholders of Microbot Israel, pursuant to which the Company would repurchase, at a discount on the fair value of the share at the date of repurchase, up to \$500 of Common Stock held by them, in the aggregate, if and to the extent such shareholders are unable to sell enough of their shares to cover certain of their Israeli tax liabilities resulting from the Merger. Such repurchase(s), if any, would occur only after the two-year anniversary of the Merger. The transaction is subject to negotiating final terms and entering into definitive agreements with such shareholders.

MICROBOT MEDICAL INC.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****U.S. dollars in thousands****(Except share data)**

The Company evaluated whether an embedded derivative that requires bifurcation exists within such shares that may be subject to repurchase. The Company concluded the fair value of such derivative instrument would be nominal and, in any case, would represent an asset to the Company as (a) the settlement requires acquiring the shares at a discount on the fair market value of the share at the time of repurchase and in no circumstances the acquisition price will be higher than approximately one dollar per share (representing 25% discount on the fair market value of the share at the merger closing date) and (b) it is assumed that the selling shareholders would use such right as last resort as such repurchase at a discount on the fair market value of such shares results in a loss to be incurred by the selling shareholders.

In accordance with ASC 480-10-S99-3A (formerly EITF D-98), the Company classified the maximum amount it may be required to pay in the event the repurchase right is exercised (\$500) as temporary equity.

NOTE 7 - BASIC AND DILUTED NET LOSS PER SHARE

The basic and diluted net loss per share and weighted average number of common shares used in the calculation of basic and diluted net loss per share are as follows (in thousands, except share and per share data):

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|--|---|---|
| Net loss attributable to shareholders of the Company | \$1,469 | \$1,307 |
| Net loss attributable to shareholders of preferred shares | 103 | - |
| Net loss used in the calculation of basic net loss per share | \$1,366 | \$1,307 |
| Net loss per share | \$0.03 | \$0.04 |

| | | |
|--|------------|------------|
| Weighted average number of common shares | 41,453,603 | 27,212,149 |
|--|------------|------------|

As the inclusion of common share equivalents in the calculation would be anti-dilutive for all periods presented, diluted net loss per share is the same as basic net loss per share.

NOTE 8 - TAXES ON INCOME

The Company is subject to income taxes under the Israeli and U.S. tax laws:

Corporate tax rates

The Company is subject to Israeli corporate tax rate of 23% from 2018.

The Company is subject to a Federal tax rate of 21% starting from 2018.

MICROBOT MEDICAL INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

U.S. dollars in thousands

(Except share data)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (7) creating a new limitation on deductible interest expense; and (8) changing rules related to uses and limitations of NOL carryforwards created in tax years beginning after December 31, 2017.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

As of March 31, 2018, the Company's assessment of the Tax Act is incomplete, and the Company has not yet been able to make reasonable estimates of the effects. Therefore, no provisional adjustments were recorded.

For the three-month period ended March 31, 2018, the Company generated net operating losses in Israel of approximately \$776 which may be carried forward and offset against taxable income in the future for an indefinite period.

For the three-month period ended March 31, 2018, the Company generated net operating losses in the U.S. of approximately \$694. Net operating losses in the United States are available through 2035. Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net

operating losses before utilization.

The Company is still in its development stage and has not yet generated revenues, therefore, it is more likely than not that sufficient taxable income will not be available for the tax losses to be utilized in the future. Therefore, a valuation allowance was recorded to reduce the deferred tax assets to its recoverable amounts.

| | As of March 31, | |
|----------------------------------|-----------------|-----------|
| | 2018 | 2017 |
| Net operating loss carry-forward | \$490,072 | \$482,322 |
| Total deferred tax assets | \$102,916 | \$115,757 |
| Valuation allowance | (102,916) | (115,757) |
| Net deferred tax assets | \$- | \$- |

MICROBOT MEDICAL INC.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

U.S. dollars in thousands

(Except share data)

Reconciliation of Income Taxes:

The following is a reconciliation of the taxes on income assuming that all income is taxed at the ordinary statutory corporate tax rate in Israel and the effective income tax rate:

| | As of March 31, | | | |
|--|-----------------|---------|---|---|
| | 2018 | 2017 | | |
| Net loss as reported in the statements of operations | \$1,469 | \$1,307 | | |
| Statutory tax rate | 23 | 24 | % | % |
| Income Tax under statutory tax rate | 338 | 313 | | |
| Change in valuation allowance | (338) | (313) | | |
| Actual income tax | \$- | \$- | | |

NOTE 9 - SUBSEQUENT EVENTS

Effective as of April 1, 2018, the Company hired Simon Sharon as the Company's Chief Technology Officer. Pursuant to the terms thereof, among other things, Mr. Sharon is entitled to options to purchase 150,000 shares of the Company's common stock, subject and pursuant to the Company's 2017 Equity Incentive Plan.

On April 10, 2018, Microbot delivered an Exercise Notice to CardioSert Ltd., notifying it that Microbot elected to exercise the option to acquire the Technology owned by CardioSert. (See Note 5)

On May 9, 2018, the holder of the Preferred Stock delivered to the Company a request to convert 800 shares of the Preferred Stock for 800,000 shares of the Company's common stock, pursuant to the terms of conversion of the Preferred Stock. On May 11, 2018, the Company issued the 800,000 shares.

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

Forward Looking Statements

The following discussion should be read in conjunction with our unaudited financial statements and related notes included in Item 1, “Financial Statements,” of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Certain information contained in this MD&A includes “forward-looking statements.” Statements which are not historical reflect our current expectations and projections about our future results, performance, liquidity, financial condition and results of operations, prospects and opportunities and are based upon information currently available to us and our management and their interpretation of what is believed to be significant factors affecting our existing and proposed business, including many assumptions regarding future events. Actual results, performance, liquidity, financial condition and results of operations, prospects and opportunities could differ materially and perhaps substantially from those expressed in, or implied by, these forward-looking statements as a result of various risks, uncertainties and other factors, including those risks described in detail in the section entitled “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words “may,” “should,” “would,” “will,” “could,” “scheduled,” “expect,” “anticipate,” “believe,” “intend,” “seek,” or “project” or the negative of these words or other variations on these words or comparable terminology.

In light of these risks and uncertainties, and especially given the nature of our existing and proposed business, there can be no assurance that the forward-looking statements contained in this section and elsewhere in this Quarterly Report on Form 10-Q will in fact occur. Potential investors should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

Overview

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

Microbot is currently developing its first two product candidates: the Self Cleaning Shunt, or SCS, for the treatment of hydrocephalus and Normal Pressure Hydrocephalus, or NPH; and TipCAT, a self-propelling, semi-disposable endoscope that is being developed initially for use in colonoscopy procedures. Microbot's product candidates are being designed to bring greater functionality to conventional medical devices and to reduce the known risks associated with such devices. Microbot is currently aiming to complete pre-clinical studies required for regulatory submission for both product candidates within the next 12 months.

On January 4, 2018, we entered into an agreement to acquire a novel patent-protected technology from CardioSert Ltd., a privately-held medical device company based in Israel. The acquisition is expected to close within 90 days of the agreement, at which time, with the addition of CardioSerts' issued U.S. patent and three patent applications pending worldwide, Microbot would have a patent portfolio of 25 issued/allowed patents and 15 patent applications pending worldwide.

Microbot has no products approved for commercial sale and has not generated any revenues from product sales since its inception in 2010. From inception to March 31, 2018, Microbot has raised cash proceeds of approximately \$18,000,000 to fund operations, primarily from government grants, loans, and private placement offerings of debt and equity securities.

Microbot has never been profitable and has incurred significant operating losses in each year since inception. Net losses for the three months ended March 31, 2018 and 2017 were approximately \$1,469,000 and \$1,307,000, respectively. Substantially all of Microbot's operating losses resulted from expenses incurred in connection with its research and development programs and from general and administrative costs associated with its operations. As of March 31, 2018, Microbot had a net working capital of approximately \$9,213,000, consisting primarily of cash and cash equivalents. Microbot expects to continue to incur significant expenses and increasing operating losses for at least the next several years as it continues the clinical development of and seeks regulatory approval for its product candidates. Accordingly, Microbot will continue to require substantial additional capital to continue its clinical development and potential commercialization activities, however, at this time it believes that its net cash will be sufficient to fund its operations for at least 12 months and fund operations necessary to continue development activities of the SCS and TipCAT. The amount and timing of Microbot's future funding requirements will depend on many factors, including the timing and results of its clinical development efforts.

Estimated completion dates and costs for Microbot's clinical development and research programs can vary significantly for each current and future product candidate and are difficult to predict. As a result, Microbot cannot estimate with any degree of certainty the costs it will incur in connection with development of its product candidates at this point in time. Microbot anticipates it will make determinations as to which programs and product candidates to pursue and how much funding to direct to each program and product candidate on an ongoing basis in response to the scientific success of early research programs, results of ongoing and future clinical trials, its ability to enter into collaborative agreements with respect to programs or potential product candidates, as well as ongoing assessments as to each current or future product candidate's commercial potential.

Financial Operations Overview

Research and Development Expenses

Research and development expenses consist primarily of salaries and related expenses and overhead for Microbot's research, development and engineering personnel, prototype materials and research studies, obtaining and maintaining Microbot's patent portfolio. Microbot expenses its research and development costs as incurred.

General and Administrative Expenses

General and administrative expenses consist primarily of the costs associated with management costs, salaries, professional fees for accounting, auditing, consulting and legal services, and allocated overhead expenses.

Microbot expects that its general and administrative expenses may increase in the future as it expands its operating activities, maintains and expands its patent portfolio, the cost of being a public company and maintaining compliance with exchange listing and SEC requirements. These additional costs include management costs, legal fees, accounting fees, directors' and officers' liability insurance premiums and expenses associated with investor relations.

Income Taxes

Microbot has incurred net losses and has not recorded any income tax benefits for the losses. It is still in its development stage and has not yet generated revenues, therefore, it is more likely than not that sufficient taxable income will not be available for the tax losses to be utilized in the future.

Critical Accounting Policies and Significant Judgments and Estimates

Microbot's management's discussion and analysis of its financial condition and results of operations are based on its financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires Microbot to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, Microbot evaluates its estimates and judgments, including those related to accrued research and development expenses. Microbot bases its estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

While Microbot's significant accounting policies are described in more detail in the notes to its financial statements, Microbot believes the following accounting policies are the most critical for fully understanding and evaluating its financial condition and results of operations.

Fair Value of Financial Instruments

The Company measures the fair value of certain of its financial instruments (such as the derivative warrant liabilities) on a recurring basis.

A fair value hierarchy is used to rank the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as unadjusted quoted prices for similar assets and liabilities, unadjusted quoted prices in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Foreign Currency Translation

Microbot's functional currency is the U.S. dollars, and its reporting currency is the U.S. dollar.

Government Grant and Input Tax Credit Recoveries

Microbot from time to time has received, and may in the future continue to receive, grants from the Israeli Innovation Authority to cover eligible company expenditures. These are presented as other income in the statement of operations and comprehensive loss as the grant funds are used for or applied towards a number of Microbot's operating expenses, such as salaries and benefits, research and development and professional and consulting fees. The recoveries are

recognized in the corresponding period when such expenses are incurred.

Research and Development Expenses

Microbot recognizes research and development expenses as incurred, typically estimated based on an evaluation of the progress to completion of specific tasks using data such as clinical site activations, manufacturing steps completed, or information provided by vendors on their actual costs incurred. Microbot determines the estimates by reviewing contracts, vendor agreements and purchase orders, and through discussions with internal clinical personnel and external service providers as to the progress or stage of completion of trials or services and the agreed-upon fee to be paid for such services. These estimates are made as of each balance sheet date based on facts and circumstances known to Microbot at that time. If the actual timing of the performance of services or the level of effort varies from the estimate, Microbot will adjust the estimate accordingly. Nonrefundable advance payments for goods and services, including fees for process development or manufacturing and distribution of clinical supplies that will be used in future research and development activities, are capitalized as prepaid expenses and recognized as expense in the period that the related goods are consumed or services are performed.

Microbot may pay fees to third-parties for manufacturing and other services that are based on contractual milestones that may result in uneven payment flows. There may be instances in which payments made to vendors will exceed the level of services provided and result in a prepayment of the research and development expense.

Results of Operations

Comparison of Quarters Ended March 31, 2018 and 2017

The following table sets forth the key components of Microbot's results of operations for the quarterly periods ended March 31, 2018 and 2017 (in thousands):

| | Quarter Ended March 31, | | Increase/ (Decrease) |
|--|----------------------------|-------|---------------------------------|
| | 2018 | 2017 | |
| Research and development expenses, net | \$383 | \$184 | \$ 199 |
| General and administrative expenses | 1,132 | 1,049 | 83 |
| Financing (income) expenses, net | (46) | 74 | 120 |

Research and Development Expenses. Microbot's research and development expenses were approximately \$383,000 for the three months ended March 31, 2018, compared to approximately \$184,000 for the same period in 2017. The increase in research and development expenses of approximately \$199,000 in 2018 was primarily due to an increase in the cost of professional services expenses, share based compensation and maintenance of intellectual property. Microbot expects its research and development expenses to increase over time as Microbot advances its development programs and begins pre-clinical and clinical trials for SCS and TipCAT.

General and Administrative Expenses. General and administrative expenses were approximately \$1,132,000 for the three months ended March 31, 2018, compared to approximately \$1,049,000 for the same period in 2017. The increase in general and administrative expenses of approximately \$83,000 in 2018 was primarily due to increase of \$358,000 in share-based compensation deducted by decrease in public company expenses and professional services in total amount of \$333,000. Microbot believes its general and administrative expenses may increase over time as it advances its programs, increases its headcount and operating activities and incurs expenses associated with being a public company.

Financing Expenses. Financing expenses were approximately \$46,000 for the three months ended March 31, 2018, compared to finance income approximately \$74,000 for the same period in 2017. The decrease in financial expenses was primarily due to change in fair value of derivative warrant liabilities.

Liquidity and Capital Resources

Microbot has incurred losses since inception and negative cash flows from operating activities for the three months ended March 31, 2018 and the fiscal year ended December 31, 2017. As of March 31, 2018, Microbot had a net working capital of approximately \$9,213,000 consisting primarily of cash and cash equivalents. Microbot anticipates that it will continue to incur net losses for the foreseeable future as it continues research and development efforts of its product candidates, hires additional staff, including clinical, scientific, operational, financial and management personnel, and incurs additional costs associated with being a public company.

Microbot has funded its operations through the issuance of capital stock, grants from the Israeli Innovation Authority, and convertible debt. As of March 31, 2018, Microbot raised total cash proceeds of approximately \$18,000,000, and incurred a total cumulative loss of approximately \$22,093,000 from inception (November 2010) to March 31, 2018.

As a result of the sale of certain of the assets of StemCells, Inc., Microbot's predecessor company, on November 29, 2016, Microbot received aggregate net cash consideration of approximately \$3.1 million. Additionally, in January 2017, we sold an aggregate of 700,000 shares of our common stock for net proceeds, after deducting placement agent fees and expenses, of approximately \$3.25 million, and in June 2017, we sold an aggregate of 3,750,000 shares of our common stock for net proceeds, after deducting placement agent fees and expenses, of approximately \$9,300,000.

In November 2017, Microbot was awarded an additional non-dilutive grant of up to 2,610,000 Israeli New Shekels (approximately \$735,000) from the Israel Innovation Authority. The grant provides additional sources to be utilized by Microbot for the continued development of the Self-Cleaning Shunt for the treatment of hydrocephalus and Normal Pressure Hydrocephalus. The grant funds may be used for or applied towards a number of research and development expenses, such as employees' salaries, research and development expenses (including materials, as well as professional and consulting fees. The recoveries are recognized in the corresponding period when such expenses are incurred. With respect to such grant, Microbot is committed to pay royalties, as, if and when it successfully commercializes the SCS and generates revenue from sales of the SCS, at a rate of between 3% to 3.5% on sales proceeds up to the total amount of grants received, linked to the dollar, plus interest at an annual rate of USD LIBOR. Under the terms of the grant and applicable law, Microbot is restricted from transferring any technologies, know-how, manufacturing or manufacturing rights developed using the grant outside of Israel without the prior approval of the Israel Innovation Authority. Microbot has no obligation to repay the grant, if the SCS project fails, is unsuccessful or aborted before any sales are generated. The financial risk is assumed completely by the IIA.

Microbot was also awarded a non-dilutive grant of 50,000€ to continue developing the SCS, from the European Commission. We can submit an additional request in six months for a higher grant up to 2,000,000€, which, if granted, would be used for the continued development of the SCS. We can give no assurance that we will receive such additional grant.

Microbot believes that its net cash as of March 31, 2018 will be sufficient to fund its operations for at least 12 months and fund operations necessary to continue development activities of the SCS and TipCAT.

Microbot plans to continue to fund its research and development and other operating expenses, other development activities relating to additional product candidates, and the associated losses from operations, through future issuances of debt and/or equity securities and possibly additional grants from the Israeli Innovation Authority. Additionally, the Company will require additional capital relating to the acquisition of certain intellectual property assets from CardioSert Ltd., and the planned development and commercialization of such assets. The capital raises from issuances of convertible debt and equity securities could result in additional dilution to Microbot's shareholders. In addition, to the extent Microbot determines to incur additional indebtedness, Microbot's incurrence of additional debt could result in debt service obligations and operating and financing covenants that would restrict its operations. Microbot can provide no assurance that financing will be available in the amounts it needs or on terms acceptable to it, if at all. If Microbot is not able to secure adequate additional working capital when it becomes needed, it may be required to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or suspend or curtail planned research programs. Any of these actions could materially harm Microbot's business.

Cash Flows

The following table provides a summary of the net cash flow activity for each of the periods set forth below (in thousands):

| | Quarter ended March 31, | |
|--|----------------------------|----------|
| | 2018 | 2017 |
| Net cash used in operating activities | \$(1,194) | \$(767) |
| Net cash used in investing activities | (133) | (22) |
| Net cash provided by financing activities | – | 3,082 |
| Net increase (decrease) in cash and cash equivalents | (1,327) | 2,293 |

Comparison of the Quarterly Periods Ended March 31, 2018 and 2017

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Cash used in operating activities for the three months ended March 31, 2018 was approximately \$1,194,000 calculated by adjusting net loss from operations by approximately \$275,000 to eliminate non-cash and expense items not involving cash flows such as depreciation and accumulated interest on convertible loans, as well as other changes in assets and liabilities resulting in non-cash adjustments in the income statement. Cash used in operating activities for the three months ended March 31, 2017 was approximately \$767,000, similarly adjusted by approximately \$540,000.

Net cash used in investing activities for the three months ended March 31, 2018 was approximately \$133,000, consisting of purchase of property and equipment, compared to approximately \$22,000 for the three months ended March 31, 2017.

Net cash provided by financing activities of approximately \$0 for the three months ended March 31, 2018, compared to approximately \$3,082,000 in the three months ended March 31, 2017.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Microbot's cash and cash equivalents as of March 31, 2018 consisted of readily available checking and money market funds. Microbot's primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, because of the short-term nature of the instruments in Microbot's portfolio, a sudden change in market interest rates would not be expected to have a material impact on Microbot's financial condition and/or results of operations. Microbot does not believe that its cash or cash equivalents have significant risk of default or illiquidity. While Microbot believes its cash and cash equivalents do not contain excessive risk, Microbot cannot provide absolute assurance that in the future its investments will not be subject to adverse changes in market value. In addition, Microbot maintains significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

Foreign Exchange Risks

Our financial statements are denominated in U.S. dollars and financial results are denominated in U.S. dollars, while a significant portion of our business is conducted, and a substantial portion of our operating expenses are payable, in currencies other than the U.S. dollar.

Exchange rate fluctuations may have an adverse impact on our future revenues, if any, or expenses as presented in the financial statements. We 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 us to purchase and sell certain foreign currencies with or for U.S. dollars at contracted rates. We 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 our foreign currency exposure. Our results of operations could be adversely affected if we are unable to successfully manage currency fluctuations in the future.

Effects of Inflation

Inflation generally affects Microbot by increasing its clinical trial costs. Microbot does not believe that inflation and changing prices had a significant impact on its results of operations for any periods presented herein.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2018. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with the management of the Company, have determined that as of March 31, 2018, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a – 15(f) of the Exchange Act). There are inherent limitations to the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time. We have assessed the effectiveness of our internal controls over financial reporting (as defined in Rule 13a -15(f) of the Exchange Act) as of March 31, 2018, and have concluded that, as of March 31, 2018, our internal control over financial reporting was effective.

This quarterly report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business.

We are named as the defendant in a lawsuit, captioned Sabby Healthcare Master Fund Ltd. and Sabby Volatility Warrant Master Fund Ltd., Plaintiffs, against Microbot Medical Inc., Defendant, pending in the Supreme Court of the State of New York, County of New York (Index No. 654581/2017) (the “Matter”). The suit was initiated on or about June 29, 2017. The complaint alleges, among other things, that Microbot Medical Inc. breached multiple representations and warranties contained in the Securities Purchase Agreement (the “SPA”) related to the June 8, 2017 equity financing of the Company (the “Financing”), of which the Plaintiffs participated. The complaint seeks rescission of the SPA and return of the Plaintiffs’ \$3,375,000 purchase price with respect to the Financing, and damages in an amount to be determined at trial, but alleged to exceed \$1 million. The parties presently are engaged in discovery.

We believe that the claims are without merit and intend to defend the action vigorously. However, due to the early stage in the litigation process, management is unable to assess the likelihood of the claim and the amount of potential damages, if any, to be awarded. Accordingly, no assurance can be given that any adverse outcome would not be material to our consolidated financial position.

On April 4, 2018, we entered into a Tolling and Standstill Agreement (the “Tolling Agreement”) with Empery Asset Master, Ltd., Empery Tax Efficient LP, Empery Tax Efficient II LP, and Hudson Bay Master Fund, Ltd., the other investors in the Financing (the “Other Investors”). Pursuant to the Tolling Agreement, among other things, (a) the Other Investors agree not to bring any claims against us arising out of the Matter, (b) the parties agree that if we reach an agreement to settle the claims asserted by the Sabby Funds in the above suit, we will provide the same settlement terms on a pro rata basis to the Other Investors, and the Other Investors will either accept same or waive all of their claims and (c) the parties froze in time the rights and privileges of each party as of the effective date of the Tolling Agreement, until (i) an agreement to settle the suit is executed; (ii) a judgment in the suit is obtained; or (iii) the suit is otherwise dismissed with prejudice.

Other than the foregoing, we are not currently a party in any legal proceeding or governmental regulatory proceeding nor are we currently aware of any pending or potential legal proceeding or governmental regulatory proceeding proposed to be initiated against us that would have a material adverse effect on us or our business.

Item 1A. Risk Factors.

Not required for a Smaller Reporting Company.

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

On March 7, 2018, the holder of the Series A Convertible Preferred Stock, par value \$0.01 per share (the “Preferred Stock”), of the Company, converted an aggregate of 500 shares of the Preferred Stock for an aggregate of 500,000 shares of the Company’s common stock. Pursuant to the terms of conversion of the Preferred Stock, each such share is convertible, upon request and for no additional consideration, into 1,000 shares of the common stock of the Registrant. The issuances of the 500,000 shares of common stock were exempt from registration under Section 4(a)(2) under the Securities Act of 1933, as amended and the rules promulgated thereunder (the “Securities Act”) as transactions not involving a public offering to a single existing stockholder who is an accredited investor, and/or 3(a)(9) under the Securities Act as the Preferred Stock was exchanged for common stock by an existing security holder and no commission or other remuneration was paid.

See “Item 5. Other Information” below.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On May 9, 2018, Alpha Capital delivered to the Company a request to convert 800 shares of the Preferred Stock held by Alpha Capital for 800,000 shares of the Company's Common Stock, pursuant to the terms of conversion of the Preferred Stock. On May 11, 2018, the Company issued the 800,000 shares to Alpha Capital. The issuance of the 800,000 shares of common stock was exempt from registration under Section 4(a)(2) under the Securities Act as transactions not involving a public offering to a single existing stockholder who is an accredited investor, and/or 3(a)(9) under the Securities Act as the Preferred Stock was exchanged for common stock by an existing security holder and no commission or other remuneration was paid.

Item 6. Exhibits

The exhibits listed below are hereby furnished to the SEC as part of this report:

- 31.1 Certification of Harel Gadot, Chairman, President and Chief Executive Officer
- 31.2 Certification of David Ben Naim, Chief Financial Officer
- 32.1 Certification of Harel Gadot, Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of David Ben Naim, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.1 XBRL Instance.
- 101.SCHXBRL Taxonomy Extension Schema.
- 101.CALXBRL Taxonomy Extension Calculation.
- 101.DEF XBRL Taxonomy Extension Definition.
- 101.LABXBRL Taxonomy Extension Labels.
- 101.PRE XBRL Taxonomy Extension Presentation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 15th day of May 2018.

MICROBOT MEDICAL INC.

By: */s/ Harel Gadot*

Name: Harel Gadot

Title: Chairman, President and Chief Executive Officer
(Principal Executive Officer)

By: */s/ David Ben Naim*

Name: David Ben Naim

Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

