Microbot Medical Inc.
Form 10-Q
November 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

[ ] 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 [X] 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 [X] 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 [X] 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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 38,605,333 shares of Common Stock, $0.01 par value, at November 10, 2017.

MICROBOT MEDICAL INC.

Index

i

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

MICROBOT MEDICAL INC.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

(Except share data)

	Note	As of September 30, 2017 Unaudited	As of December 31, 2016 Audited
ASSETS			
Current assets:			
Cash and cash equivalents		$ 11,729	$ 2,709
Other receivables		472	606
Total current assets		12,201	3,315
Non-current assets:			
Restricted Cash		27	-
Fixed assets, net		66	53
Total assets		$ 12,294	$ 3,368
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables		$ 21	$ 512
Accrued liabilities		486	271
Total current liabilities		507	783
Long term liabilities:			
Convertible notes	3	-	76
Derivative warrant liability	4	39	313
Total liabilities		546	1,172

Commitments	5		
Temporary equity:	6		
Common stock of $0.01 par value; Issued and outstanding: 10,702,838 shares as of September 30, 2017 and December 31, 2016		500	500
Shareholders' equity:	6		
Preferred stock of $0.01 par value; Authorized: 1,000,000 shares as of September 30, 2017 and December 31, 2016; Issued and outstanding: 7,037 and 9,736 shares of Series A Convertible Preferred Stock as of September 30, 2017 and December 31, 2016, respectively		(*)	(*)
Common stock of $0.01 par value; Authorized: 220,000,000 shares as of September 30, 2017 and December 31, 2016; Issued and outstanding: 26,302,495 and 15,848,136 shares as of September 30, 2017 and December 31, 2016, respectively		370	266
Additional paid-in capital		29,915	14,465
Accumulated deficit		(19,037)	(13,035)
Total shareholders' equity		11,248	1,696
Total liabilities and shareholders' equity		$ 12,294	$ 3,368

(*) Less than 1

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

MICROBOT MEDICAL INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

U.S. dollars in thousands

(Except share data)

	Note	Nine months ended September 30, 2017	2016	Three months ended September 30, 2017	2016
Research and development expenses, net		$900	$603	$339	$340
General and administrative expenses		2,830	1,120	896	305
Operating loss		(3,730)	(1,723)	(1,235)	(645)
Financing income (expenses), net		(2,272)	(241)	48	(7)
Net loss		$(6,002)	$(1,964)	$(1,187)	$(652)
Basic and diluted loss per share	7	$(0.15)	$(0.09)	$(0.03)	$(0.08)

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

MICROBOT MEDICAL INC.

INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY (AUDITED)

U.S. dollars in thousands

(Except share data)

	Preferred A Shares –~Microbot Medical Ltd. (Pre - merger) *		Preferred A Shares – Microbot Medical Inc. (Post - merger) *		Common Stock		Additional paid-in	Accumulated	Total shareholders' equity	Temporary equity
	Number	Amount	Number	Amount	Number	Amount	capital	deficit	(deficit)	(Note 6)
Balances as of December 31, 2015	8,708,132	$87	-	$-	13,182,660	$132	$3,089	$(3,372)	$(64)	$-
Conversion of convertible notes and exercise of warrants issued upon conversion	4,746,237	48	-	-	-	-	1,803	-	1,851	-
Effect of reverse recapitalization	(13,454,369)	(135)	-	-	15,301,675	153	454	-	472	-
Common stock classified as temporary equity	-	-	-	-	-	-	(500)	-	(500)	500
Beneficial Conversion Feature recorded on convertible debt acquired in reverse recapitalization	-	-	-	-	-	-	2,029	-	2,029	-
Transaction costs incurred	-	-	-	-	7,802,639	78	6,817	-	6,895	-

in reverse recapitalization										
Cancellation of ordinary shares and issuance of preferred shares	-	-	9,736	(*)	(9,736,000)	(97)	97	-		-
Share based compensation	-	-	-	-	-	-	676	-	676	-
Net loss	-	-	-	-	-	-	-	(9,663)	(9,663)	-
Balances as of December 31, 2016	-	$-	9,736	$ (*)	**26,550,974	$266	$14,465	$(13,035)	$1,696	$500

(*) Less than 1

* Share data for periods prior to the reverse recapitalization represents the legal equity structure of Microbot Medical Ltd. with the number of shares adjusted to retroactively reflect the one-to-nine Reverse Stock Split effected on November 28, 2016 as well as the reverse recapitalization consummated on November 28, 2016.

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

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

MICROBOT MEDICAL INC.

INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

U.S. dollars in thousands

(Except share data)

	Preferred A Shares		Common Stock		Additional paid-in	Accumulated	Total shareholders'	Temporary equity
	Number	Amount	Number	Amount	capital	deficit	equity	(Note 6)
Balance as of 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	-	-	50,000	1	175	-	176	-
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	(5,954)	(*)	5,954,000	58	(58)	-	-	-
Net loss for the period	-	-	-	-	-	(6,002)	(6,002)	-
Balance as of September 30, 2017	7,037	$ (*)	**37,005,333	$ 370	$ 29,915	$ (19,037)	$ 11,248	$ 500

(*) Less than 1

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

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

MICROBOT MEDICAL INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Nine months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016
OPERATING ACTIVITIES				
Net loss for the period	$(6,002)	$(1,964)	$(1,187)	$(652)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	15	8	3	3
Interest and amortization of discount on convertible notes	237	260	-	27
Financing loss on debt extinguishment	2,364	-	-	-
Share-based compensation expense	176	675	22	-
Changes in fair value of derivative warrant liability	(274)	-	1	-
Changes in assets and liabilities:				
Increase (decrease) in other receivables	29	(2)	72	(12)
Increase (decrease) in other payables and accrued liabilities	(92)	256	(260)	213
Net cash used in operating activities	(3,547)	(767)	(1,349)	(421)
INVESTMENT ACTIVITIES				
Increase in restricted cash	(27)	-	-	-
Purchase of property and equipment	(28)	-	-	-
Net cash used in investing activities	(55)	-	-	-
FINANCING ACTIVITIES				
Inflow in connection with current assets and liabilities acquired in reverse recapitalization, net	(82)	-	-	-
Issuance of convertible notes	-	750	-	-
Exercise of warrants	-	154	-	154
Issuance of common stock, net of issuance costs	12,704	-	-	-
Net cash provided by financing activities	12,622	904	-	154
Increase (decrease) in cash and cash equivalents	9,020	137	(1,349)	(267)

Cash and cash equivalents at the beginning of the period	2,709	437	13,078	841
Cash and cash equivalents at the end of the period	$11,729	$574	$11,729	$574
Non-cash financing transactions:				
Cashless exercise of warrants	$(*)	$-	$-	$-
Conversion of preferred A shares	$60	$-	$27	$-
Extinguishment of convertible notes in exchange for preferred A shares	$2,083	$-	$-	$-

(*) Less than 1

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

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

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.

The Company 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 CytoTherapeutics, 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 ("Common Stock"), after giving effect to a one for nine reverse stock split (the "Reverse Stock Split"), for an aggregate of 26,550,974 shares of 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 Common Stock. Additionally, the Company issued an aggregate of 7,802,639 restricted shares of its Common Stock or rights to receive the 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 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 have been 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 all material assets relating to the stem cell business was substantially 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.

B. Risk Factors:

To date the Company has not generated revenues from its operations. As of September 30, 2017, the Company had cash and cash equivalents totaling approximately $11,729, which the Company 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. 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 (the “IIA”).

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

C. Use of Estimates:

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

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Unaudited Interim Financial Statements:

The accompanying unaudited interim condensed 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).

For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 21, 2017.

Operating results for the nine and three-month periods ended September 30, 2017, are not necessarily indicative of the results that may be expected for the year ended December 31, 2017.

B. 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. Certain prior year amounts have been reclassified for consistency with the current period presentation.

C. Recent Accounting Standards:

The Company assesses the adoption impacts of recently issued accounting standards by the Financial Accounting Standards Board on its financial statements. Following are newly issued standards or material updates to the Company's previous assessments from its Annual Report on Form 10-K for the fiscal year ended December 31, 2016:

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 company has not yet generated revenues to date, and thus does not expect the standard to have a material impact on its consolidated financial statements.

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.

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

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 November 2016, the FASB issued ASU 2016-18 "Restricted Cash" to provide guidance on the presentation of restricted cash in the statement of cash flows. Currently, the statement of cash flows explained the change in cash and cash equivalents for the period. The ASU requires that the statement of cash flows explain the change in cash, cash equivalents and restricted cash for the period. The ASU is effective for the Company in the first quarter of 2018, with early adoption permitted. The Company does not expect the adoption to have a material effect on the statements of cash flows as the Company's restricted cash is not expected to be material.

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 does not expect to change terms or conditions of share-based payment awards, and therefore, does not expect the adoption of this standard to have a material impact on its 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 warrants to purchase Series A Preferred Shares (as defined below in this Note 3) 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 warrants were exercised in full in September 2016 for total gross proceeds to Microbot Israel of approximately $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.

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. Furthermore, in the event of a reverse merger transaction or a qualified financing, each as defined in the convertible loan agreement with respect to such loans, all of the outstanding principal and accrued interest would be converted into the securities issued in the reverse merger or the qualified financing, as the case may be.

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

On November 28, 2016, upon the consummation of the Merger, the loan was converted into an aggregate of 2,242,939 shares of 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 is 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 is 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 was paid in full. In addition, the Note was secured by a first priority security interest in all of StemCells 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 approximately $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 is convertible into the 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 is 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 contains customary representations and warranties and usual and customary affirmative and negative covenants. The Convertible Note also contains 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 $2,000 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 approximately $2,029 (the "Assumed Consideration"), which is equal to the principal amount of the Convertible Note as determined in the Exchange Agreement.

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, 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 Agreements with Alpha Capital.

The carrying value of the Convertible Note as of the periods below was calculated as follow:

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

	Balance at September 30, 2017 Unaudited	Balance at December 31, 2016 Audited
Convertible note	$-	$ 2,029
Unamortized discount	-	(1,963)
Accrued interest	-	10
	$-	$ 76

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 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. Upon exercise of these warrants, StemCells issued 531,814 shares of its common stock prior to the Merger. The $0.30 per share exercise price was later adjusted to $2.70 as a result of the Company's Reverse Stock Split.

The remaining outstanding warrants as of December 31, 2016 and September 30, 2017 are as follows:

Issuance Date	**Outstanding as of December 31, 2016**	**Outstanding as of September 30, 2017**	Exercise Price	**Exercisable as of September 30, 2017**	Exercisable Through

Series A (2011)	64,230	-	$151.20	-	December 2016
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
Series A (2016) (a)(b)	10,047	9,279	$2.70	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 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 the Company’s warrant liability at September 30, 2017 and December 31, 2016, was approximately $39 and $313, respectively.

(a)

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 the Company’s historical dividend payments, which have been zero to date. Volatility is estimated from the historical volatility of the 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.

(b) 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.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities as of September 30, 2017 and December 31, 2016:

	As of September 30, 2017		As of December 31, 2016	
	Series A (2016)	Series B (2016)	Series A (2016)	Series B (2016)
Share price	$1.17	$ 1.17	$6.10	$ 6.10
Exercise price	$2.70	$ 2.70	$2.70	$ 2.70
Expected volatility	137 %	131 %	380 %	380 %
Risk-free interest	1.24%	1.89 %	0.85%	1.93 %
Dividend yield	—	—	—	—
Expected life of up to (years)	0.50	4.50	1.2	5.2

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

	Derivative warrant liabilities
As of December 31, 2016	$ 313
Revaluation of warrants	(274)
Exercise warrants	(*)
As of September 30, 2017	$ 39

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 over time, namely, the volatility and the risk-free rate. A 5.0% decrease or increase in volatility would not cause a material change in the value of the warrants. 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.

NOTE 5 - COMMITMENTS

Microbot Israel obtained from the IIA grants for participation in research and development for the years 2013 through September 30, 2017 in the total amount of approximately $1,183, 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 IIA. The grants are received from IIA 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 June 2016, the Company entered into an office lease agreement, with a term ending on February 28, 2018. According to the lease agreement, the monthly office lease payment is approximately $3.

In December 2016, the Company entered into an automobile lease agreement, which expires on December 31, 2019. According to the lease agreement, the monthly lease payment is approximately $2.5.

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

In May 2017, the Company entered into an office lease agreement effective from January 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, and therefore, is not reflected in these interim condensed 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 will collaborate to determine the effectiveness of the Company's self-cleaning shunt.

The initial research to be performed by Washington U. is expected to be completed by the end of 2017, with a comprehensive study to follow and be completed in 2018.

The cost of the initial study, to be paid by the Company, is expected to be approximately $130, with the cost of any further studies to be determined. 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.

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 to exceed $1 million.

Due to the early stage in the ligation process, management is unable to assess the likelihood of the claim and the amount of potential damages, if any, to be awarded.

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 September 30, 2017, the Company had 37,005,333 shares of Common Stock issued and outstanding, and 7,037 shares of Series A Convertible Preferred Stock issued and outstanding.

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

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. See "- Securities Exchange Agreement with Alpha Capital" below. See also Note 3 – Securities Exchange Agreement with Alpha Capital, above.

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 $0.80 ($0.28 as retroactively adjusted to reflect the Merger). The stock options were fully vested 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 $22 included in general and administrative expenses for the period ended September 30, 2017.

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 began vesting as of the grant date for a period of 3 years.

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

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

	For the nine-month period ended September 30, 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	1,812,712	1.05	
Exercised	-	-	
Cancelled	-	-	-
Outstanding at end of period	4,427,628	$ 0.51	$ 2,922
Options vested end of period	2,614,916	$ 0.13	

	For the twelve months ended December 31, 2016		
	Number of stock options	Weighted average exercise price	**Aggregate intrinsic value**
Outstanding at beginning of period	1,167,693	$ 0.28	
Granted	1,447,223	(*)	
Exercised	-	-	
Cancelled	-	-	-
Outstanding at end of period	2,614,916	$ 0.13	$ 3,739
Vested and expected-to-vest at end of period	2,614,916	$ 0.39	$ 3,739

(*) Less than 1

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 September 30, 2017 and December 31, 2016 respectively,

The stock options outstanding as of September 30, 2017, and December 31, 2016, have been separated into exercise prices, as follows:

Exercise price	Stock options outstanding as of September 30,	Stock options outstanding as of December 31,	Weighted average remaining contractual life – years as of September 30,	Weighted average remaining contractual life – years as of December 31,	Stock options exercisable as of September 30,	Stock options exercisable as of December 31,
$	2017	2016	2017	2016	2017	2016
0.28	1,167,693	1,167,693	7.25	8.0	1,167,693	1,167,693
1.05	1,812,712	-	10	-	-	-
(*)	1,447,223	1,447,223	8.75	9.5	1,447,223	1,447,223
	4,427,628	2,614,916			2,614,916	2,614,916

(*) Less than 1

MICROBOT MEDICAL INC.

U.S. dollars in thousands

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Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

Compensation expense recorded by the Company in respect of its stock-based employee compensation awards in accordance with ASC 718-10 for the period ended September 30, 2017 and 2016 was $22 and $675, respectively which were included in general and administrative expenses.

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:

	Nine-month period ended September 30, 2017		Year ended December 31, 2016	
Expected volatility	133.9	%	77.3	%
Risk-free interest	1.5	%	0.6	%
Dividend yield	0	%	0	%
Expected life of up to (years)	6.71		5	

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.

On May 26, 2017, the Company issued an aggregate of 50,000 nonrefundable shares of Common Stock to a consultant as part of investor relations services. The Company recorded expenses of approximately $154 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 9,735,925 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 the Series A Convertible 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 $2.36 million

On May 11, 2017, the holder of the Series A Convertible Preferred Stock delivered to the Company a request to convert 700 shares of the Series A Convertible Preferred Stock for 700,000 shares of Common Stock, pursuant to the terms of conversion of the Series A Convertible Preferred Stock. On May 12, 2017, the Company issued the 700,000 shares of Common Stock.

Between May 18, 2017 and June 30, 2017, the holder of the Series A Convertible Preferred Stock converted an aggregate of 2,554 shares of the Series A Convertible Preferred Stock for an aggregate of 2,554,000 shares of Common Stock.

Between July 10, 2017 and September 20, 2017, the holder of the Series A Convertible Preferred Stock converted an aggregate of 2,700 shares of the Series A Convertible Preferred Stock for an aggregate of 2,700,000 shares of Common Stock.

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

Repurchase of Shares

The Company intends to enter into a definitive agreement with up to three Israeli shareholders, some of whom are directors 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.

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 re purchase 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 shares of Common Stock used in the calculation of basic and diluted net loss per share are as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2017 Unaudited	2016 Unaudited	2017 Unaudited	2016 Unaudited
Net loss attributable to shareholders of the company	$(6,002)	$(1,964)	$(1,187)	$(652)
Net loss attributable to shareholders of preferred shares	(1,442)	(821)	(234)	(297)
Net loss used in the calculation of basic net loss per share	$(4,560)	$(1,143)	$(953)	$(355)
Net loss per share	$(0.15)	$(0.09)	$(0.03)	$(0.03)
Weighted average number of common shares	30,594,686	13,182,660	35,373,811	13,182,660

As the inclusion of Common Stock 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.

The weighted average number of shares of Common Stock outstanding has been retroactively restated for the equivalent number of shares of Common Stock received by the accounting acquirer as a result of the reverse recapitalization and Reverse Stock Split as if these shares of Common Stock had been outstanding as of the beginning of the earliest period presented.

NOTE 8 - TAXES ON INCOME

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

Corporate Tax Rates

Microbot Israel is subject to Israeli corporate tax rate of 25% in the year 2016, 24% in year 2017 and 23% from year 2018.

MICROBOT MEDICAL INC.

U.S. dollars in thousands

(Except share data and exercise prices)

Notes to the Interim Condensed Consolidated Financial Statements

(Cont'd)

The Company is subject to a blended U.S. tax rate (Federal as well as state corporate tax) of 35%.

A. As of September 30, 2017, the Company generated net operating losses in Israel of approximately $7,049, which may be carried forward and offset against taxable income in the future for an indefinite period.

As of September 30, 2017, the Company generated net operating losses in the U.S. of approximately $480,000. 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, which the Company is currently evaluating. The annual limitation may result in the expiration of net operating losses before utilization.

B. The Company is 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 September 30, 2017	As of December 31, 2016
Net loss carry-forward	$487,017	$481,015
Total deferred tax assets	487,017	481,015
Valuation allowance	(487,017)	(481,015)
Net deferred tax assets	$-	$-

C. 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:

	For the nine-month ended September	For the three-month

	30,		ended September 30,	
	2017	2016	2017	2016
Net loss as reported in the statements of operations	$(6,002)	$(1,964)	$(1,187)	$(652)
Statutory tax rate	24 %	25 %	24 %	25 %
Income Tax under statutory tax rate	1,440	491	285	163
Change in valuation allowance	(1,440)	(491)	(285)	(163)
Actual income tax	$-	$-	$-	$-

NOTE 9 – SUBSEQUENT EVENTS

From October 4, 2017 through October 25, 2017, the holder of the Series A Convertible Preferred Stock of the Company, converted an aggregate of 1,600 shares of the Series A Convertible Preferred Stock for an aggregate of 1,600,000 shares of Common Stock.

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, 2016. 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, 2016.

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 the SCS as well as the TipCAT within the next 21 months.

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 September 30, 2017, 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.

Net losses for the nine and three months ended September 30, 2017 and 2016 were approximately $6,002,000 and $1,187,000 and $1,964,000 and $652,000, 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 September 30, 2017, Microbot had a net working capital of approximately $11,694,000, 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, and obtaining and maintaining Microbot's patent portfolio.

Research and development expenses are charged to the statement of operations as incurred. Grants for funding of approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and applied as a deduction from the research and development expenses.

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.

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.

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 deducted from research and development expenses and therefore research and development expenses are presented in the net amount. The recoveries are recognized in the corresponding period when such expenses are incurred.

Results of Operations

Comparison of Nine and Three Months Ended September 30, 2017 and 2016

The following table sets forth the key components of Microbot's results of operations for the nine and three month periods ended September 30, 2017 and 2016 (in thousands):

	Nine months ended September 30,		Increase/	**Three months ended September 30,**		Increase/
	2017	2016	(Decrease)	2017	2016	(Decrease)
Research and development expenses, net	$900	$603	$ 297	$339	$340	$ (1)
General and administrative expenses	2,830	1,120	1,710	896	305	591
Financing income (expenses), net	(2,272)	(241)	2,031	48	(7)	55

Research and Development Expenses. Microbot's research and development expenses for the nine and three-month periods ended September 30, 2017 were approximately $900,000 and $339,000, respectively, compared to approximately $603,000 and $340,000, respectively, for the nine and three months period ended September 30, 2016. The increase in research and development expenses for the nine and three month periods ended September 30, 2017 was primarily due to payroll, materials and professional services. 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 for the nine and three-month periods ended September 30, 2017 were approximately $2,830,000 and $896,000, respectively, compared to approximately $1,120,000 and $305,000, respectively, for the nine and three month periods ended September 30, 2016. The increase in general and administrative expenses for the nine and three month periods ended September 30, 2017 was primarily due to Microbot becoming a public company and therefore incurring higher professional fees and public company fees. 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 for the nine-month period ended September 30, 2017 were approximately $2,272,000 and for the three month period ended September 30, 2017 were approximately $48,000 compared to approximately $241,000 and $7,000 for the nine and three months period ended September 30, 2016, respectively. The increase in financial expenses for the nine and three month periods ended September 30, 2017 was primarily due to revaluation and extinguishment of the convertible note and change in fair value of derivative warrant liabilities. As a result of the extinguishment of the convertible note and issuance of the Series A preferred stock, the Company recorded a financial loss in the amount of approximately $2,360,000 and $0 for the nine and three-month periods, respectively, ended September 30, 2017.

Liquidity and Capital Resources

Microbot has incurred losses since inception and negative cash flows from operating activities for the nine and three months periods ended September 30, 2017 and for the fiscal year ended December 31, 2016. As of September 30, 2017, Microbot had a net working capital of approximately $11,694,000, 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. From inception (November 2010) through September 30, 2017, Microbot raised total cash proceeds of approximately $18,000,000, and incurred a total cumulative loss of approximately $19,037,000.

As a result of the sale of certain of the assets of StemCells, Inc., Microbot’s predecessor company, on November 29, 2016, Microbot raised approximately $3,100,000 in cash, after taking into account the payment of $495,000 to certain StemCells employees but excluding $400,000 held in escrow to satisfy any indemnification claims of the buyer of the assets. Additionally, in January and June 2017, we sold an aggregate of 700,000 and 3,750,000 shares, respectively, of our common stock for aggregate net proceeds, after deducting placement agent fees and expenses, of approximately $12,701,000. As a result of such cash, Microbot 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.

Microbot plans to continue to fund its research and development and other operating expenses, other development activities relating to additional product candidates it may develop internally or through acquisitions, and the associated losses from operations, through future issuances of debt and/or equity securities and possibly additional grants from the Israeli Innovation Authority. 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):

	Nine months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016
Net cash used in operating activities	$(3,547)	$(767)	$(1,349)	$(421)
Net cash used in investing activities	(55)	–	-	-
Net cash provided by financing activities	12,622	904	-	154
Net increase in cash and cash equivalents	$9,020	$137	$(1,349)	$(267)

Cash used in operating activities for the nine months ended September 30, 2017 was approximately $3,547,000, calculated by adjusting net loss from operations by approximately $2,455,000 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. Cash used in operating activities for the nine months ended September 30, 2016 was approximately $767,000, similarly adjusted by approximately $1,197,000.

Net cash used in investing activities for the nine months ended September 30, 2017 was approximately $55,000, consisting of purchase of property and equipment and restricted cash which was deposited for the benefit of lease agreements, compared to approximately $0 for the nine months ended September 30, 2016.

Net cash provided by financing activities of approximately $12,622,000 for the nine months ended September 30, 2017 consisted of issuance of common stock and outflow amounts related to the merger recapitalization, compared to approximately $904,000 in the nine months ended September 30, 2016.

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 its 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 September 30, 2017 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 our 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 September 30, 2017. 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 September 30, 2017, 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 September 30, 2017, and have concluded that, as of September 30, 2017, 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, pursuant to applicable rules of the Securities and Exchange Commission.

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.

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 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 to exceed $1 million. The parties currently are conducting discovery.

We believe that the claims are without merit and intend to defend the action vigorously. However, due to the early stage in the ligation 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.

Item 1A. Risk Factors.

Not required for a Smaller Reporting Company.

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

From October 4, 2017 through October 25, 2017, 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 1,600 shares of the Preferred Stock for an aggregate of 1,600,000 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 1,600,000 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.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

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

10.1	Form of Stock Option Agreement
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.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation.
101.DEF	XBRL Taxonomy Extension Definition.
101.LAB	XBRL Taxonomy Extension Labels.
101.PRE	XBRL Taxonomy Extension Presentation.

23

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 14th day of November 2017.