CatchMark Timber Trust, Inc.
Form 10-Q
August 03, 2015

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 June 30, 2015
OR	
o	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 001-36239

CATCHMARK TIMBER TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	20-3536671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

5 Concourse Parkway, Suite 2325, Atlanta, GA
Atlanta, GA 30328
(Address of principal executive offices)
(Zip Code)

(855) 858-9794
(Registrant's telephone number, including area code)
N/A

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark 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 o

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 during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files)
Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

Number of shares outstanding of the registrant's classes of common stock, as of July 30, 2015:

Class A Common Stock 39,551,605 shares

FORM 10-Q

CATCHMARK TIMBER TRUST, INC.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q of CatchMark Timber Trust, Inc. and subsidiaries ("CatchMark Timber Trust," "we," "our," or "us") may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, CatchMark Timber Trust, or the executive officers on CatchMark Timber Trust's behalf, may from time to time make forward-looking statements in reports and other documents CatchMark Timber Trust files with the Securities and Exchange Commission (the "SEC") or in connection with oral statements made to the press, potential investors, or others. We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in the Securities Act and the Exchange Act. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods.

Forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Readers are cautioned not to place u reliance on these forward-looking statements, which speak only as of the date that this report is filed with the SEC. We make no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this Form 10-Q, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our timberland properties, may be significantly hindered. See Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of some, although not all, of the risks and uncertainties that could cause actual results to differ materially from those presented in our forward-looking statements.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows reflects all normal and recurring adjustments that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned financial statements.

The accompanying consolidated financial statements should be read in conjunction with the condensed notes to CatchMark Timber Trust's consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q and with CatchMark Timber Trust's Annual Report on Form 10-K for the year ended December 31, 2014. CatchMark Timber Trust's results of operations for the three months and six months ended June 30, 2015 are not necessarily indicative of the operating results expected for the full year.

Table of Contents

CATCHMARK TIMBER TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except for per-share data)

	(Unaudited) June 30, 2015	December 31, 2014
Assets:		
Cash and cash equivalents	$14,198	$17,365
Accounts receivable	2,161	798
Prepaid expenses and other assets	2,529	2,781
Deferred financing costs, less accumulated amortization of $571 and $267 as of June 30, 2015 and December 31, 2014, respectively	4,017	4,245
Timber assets (Note 3):		
Timber and timberlands, net	554,396	543,101
Intangible lease assets, less accumulated amortization of $933 and $931 as of June 30, 2015 and December 31, 2014, respectively	24	26
Total assets	$577,325	$568,316
Liabilities:		
Accounts payable and accrued expenses	$2,780	$2,359
Other liabilities	4,120	3,265
Note payable and line of credit (Note 4)	138,002	118,000
Total liabilities	144,902	123,624
Commitments and Contingencies (Note 6)	—	—
Stockholders' Equity:		
Class A common stock, $0.01 par value; 889,500 shares authorized; 39,552 and 36,193 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	396	362
Class B-3 common stock, $0.01 par value; 3,500 shares authorized; 0 and 3,164 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	—	32
Additional paid-in capital	612,926	612,518
Accumulated deficit and distributions	(180,350)	(167,364)
Accumulated other comprehensive loss	(549)	(856)
Total stockholders' equity	432,423	444,692
Total liabilities and stockholders' equity	$577,325	$568,316

See accompanying notes.

Table of Contents

CATCHMARK TIMBER TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except for per-share data)

	(Unaudited) Three Months Ended June 30		(Unaudited) Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Timber sales	$12,672	$10,173	$25,766	$18,270
Timberland sales	591	1,025	6,765	1,090
Other revenues	911	703	1,887	1,411
	14,174	11,901	34,418	20,771
Expenses:				
Contract logging and hauling costs	4,824	4,207	9,944	7,954
Depletion	6,396	3,729	12,598	5,533
Cost of timberland sales	401	791	5,407	841
Forestry management expenses	1,061	810	2,182	1,506
General and administrative expenses	1,864	1,060	3,532	2,776
Land rent expense	172	190	375	405
Other operating expenses	935	681	1,873	1,326
	15,653	11,468	35,911	20,341
Operating (loss) income	(1,479)	433	(1,493)	430
Other income (expense):				
Interest income	2	2	2	2
Interest expense	(853)	(784)	(1,656)	(1,169)
	(851)	(782)	(1,654)	(1,167)
Net loss available to common stockholders	$(2,330)	$(349)	$(3,147)	$(737)
Weighted-average common shares outstanding - basic and diluted	39,551	24,985	39,490	24,910
Net loss per-share available to common stockholders - basic and diluted	$(0.06)	$(0.01)	$(0.08)	$(0.03)

See accompanying notes.

Table of Contents

CATCHMARK TIMBER TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(amounts in thousands)

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(2,330)	$(349)	$(3,147)	$(737)
Other comprehensive income (loss):				
Market value adjustment to interest rate swap	1,201	(166)	307	(180)
Comprehensive loss	$(1,129)	$(515)	$(2,840)	$(917)

See accompanying notes.

Table of Contents

CATCHMARK TIMBER TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(amounts in thousands, except for per-share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit and Distributions	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2014	36,193	$ 362	3,164	$ 32	$ 612,518	$ (167,364)	$ (856)	$ 444,692
Common stock issued pursuant to:								
Long-term incentive plan	195	2			408			410
Conversion to Class A Shares	3,164	32	(3,164)	(32)				—
Dividends to common stockholders ($0.25 per share)						(9,839)		(9,839)
Net loss						(3,147)		(3,147)
Other comprehensive income							307	307
Balance, June 30, 2015	39,552	$ 396	—	$ —	$ 612,926	$ (180,350)	$ (549)	$ 432,423

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit and Distributions	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2013	13,900	$ 139	9,493	$ 95	$ 432,117	$ (152,688)	$ 269	$ 279,932
Common stock issued pursuant to:								
Listed Public Offerings	1,579	16			21,300			21,316
Long-term incentive plan	13	—			191			191
Conversion to Class A Shares	3,164	32	(3,164)	(32)				—
Dividends to common stockholders ($0.345 per share)						(8,619)		(8,619)
Stock issuance cost					(1,674)			(1,674)
Net loss						(737)		(737)
Other comprehensive loss							(180)	(180)
Balance, June 30, 2014	18,656	$ 187	6,329	$ 63	$ 451,934	$ (162,044)	$ 89	$ 290,229

See accompanying notes.

Table of Contents

CATCHMARK TIMBER TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	(Unaudited) Six Months Ended June 30, 2015	2014
Cash Flows from Operating Activities:		
Net loss	$(3,147)	$(737)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion	12,598	5,533
Other amortization	58	44
Stock-based compensation expense	411	179
Noncash interest expense	332	182
Basis of timberland sold	4,894	744
Changes in assets and liabilities:		
Accounts receivable	(1,363)	(1,102)
Prepaid expenses and other assets	117	575
Accounts payable and accrued expenses	595	378
Other liabilities	1,131	1,089
Net cash provided by operating activities	15,626	6,885
Cash Flows from Investing Activities:		
Timberland acquisitions	(27,651)	(86,089)
Capital expenditures (excluding timberland acquisitions)	(1,056)	(536)
Net cash used in investing activities	(28,707)	(86,625)
Cash Flows from Financing Activities:		
Proceeds from note payable	20,500	86,500
Repayments of note payable	(498)	(20,169)
Financing costs paid	(249)	(943)
Issuance of common stock	—	21,316
Dividends paid to common stockholders	(9,839)	(5,495)
Stock issuance costs	—	(1,674)
Net cash provided by financing activities	9,914	79,535
Net decrease in cash and cash equivalents	(3,167)	(205)
Cash and cash equivalents, beginning of period	17,365	8,614
Cash and cash equivalents, end of period	$14,198	$8,409

See accompanying notes.

Table of Contents

CATCHMARK TIMBER TRUST, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 (unaudited)

1. Organization

CatchMark Timber Trust Inc. ("CatchMark Timber Trust") primarily engages in the ownership, management, acquisition, and disposition of timberlands located in the southeastern United States and has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. CatchMark Timber Trust was incorporated in Maryland in 2005 and commenced operations in 2007. CatchMark Timber Trust conducts substantially all of its business through CatchMark Timber Operating Partnership, L.P. (“CatchMark Timber OP”), a Delaware limited partnership. CatchMark Timber Trust is the general partner of CatchMark Timber OP, possesses full legal control and authority over its operations, and owns 99.99% of its common partnership units. CatchMark LP Holder, LLC (“CatchMark LP Holder”), a wholly owned subsidiary of CatchMark Timber Trust, is the sole limited partner of CatchMark Timber OP. In addition, CatchMark Timber TRS, Inc. (“CatchMark TRS”), a Delaware corporation, was formed as a wholly owned subsidiary of CatchMark Timber OP in 2006. Unless otherwise noted, references herein to CatchMark Timber Trust shall include CatchMark Timber Trust and all of its subsidiaries, including CatchMark Timber OP, and the subsidiaries of CatchMark Timber OP, including CatchMark TRS.

CatchMark Timber Trust generates recurring income and cash flow from the harvest and sale of timber, as well as from non-timber related revenue sources, such as recreational leases. CatchMark Timber Trust also periodically generates income and cash flow from the sale of timberland properties that have a higher-value use beyond growing timber ("HBU"), such as properties that can be sold for development, conservation, recreational or other rural purposes at prices in excess of traditional timberland values. CatchMark Timber Trust expects to realize additional long-term returns from the potential appreciation in value of its timberlands as well as from the potential biological growth of its standing timber inventory in excess of its timber harvest.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation
The consolidated financial statements of CatchMark Timber Trust have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and shall include the accounts of any variable interest entity (“VIE”) in which the Company or its subsidiaries is deemed the primary beneficiary. With respect to entities that are not VIEs, CatchMark Timber Trust’s consolidated financial statements shall also include the accounts of any entity in which CatchMark Timber Trust or its subsidiaries owns a controlling financial interest and any limited partnership in which CatchMark Timber Trust or its subsidiaries owns a controlling general partnership interest. In determining whether a controlling interest exists, CatchMark Timber Trust considers, among other factors, the ownership of voting interests, protective rights, and participatory rights of the investors.

CatchMark Timber Trust owns a controlling financial interest in CatchMark Timber OP, CatchMark LP Holder and CatchMark TRS and, accordingly, includes the accounts of these entities in its consolidated financial statements. The financial statements of CatchMark Timber OP, CatchMark LP Holder and CatchMark TRS are prepared using accounting policies consistent with those used by CatchMark Timber Trust. All intercompany balances and transactions have been eliminated in consolidation.

For further information, refer to the audited financial statements and footnotes included in CatchMark Timber Trust’s Annual Report on Form 10-K for the year ended December 31, 2014.

Change in Depletion Method

CatchMark Timber Trust recognizes depletion expense as timber is harvested. Prior to January 1, 2015, depletion rates for fee timber held longer than 12 months were determined annually using the normalized depletion method, by dividing

Table of Contents

(a) the sum of (i) net carrying value of merchantable and premerchantable timber, and (ii) projected approved reforestation costs to be capitalized over the remaining harvest cycle; by (b) the estimated merchantable timber volume expected to be harvested over the same period. The projected future harvest volume is derived by running a specialized modeling software based on the specific management regime adapted and a set of scientific formulas. Significant management judgments were involved to develop estimates of future harvest volumes and future reforestation costs.

Effective January 1, 2015, CatchMark Timber Trust changed the depletion method on its long-term fee timber to the straight-line method. The straight-line depletion rates are established at least annually by dividing the book value by current standing timber inventory volume. Management believes the change from the normalized depletion method to the straight-line depletion method is preferable as the straight-line method is based on the actual costs recorded and volumes of timber that are merchantable as of the date that the depletion rates are determined. It is less reliant on subjective and complex estimates as it does not include future costs to be incurred or expected timber growth. Therefore, the straight-line depletion method provides for a more disaggregated tracking of costs and volumes and allocation of costs as the timber is harvested.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 250, CatchMark Timber Trust determined that the change in depletion method is a change in accounting estimate effected by a change in accounting principle, and accordingly, the straight-line method will be applied on a prospective basis.

If CatchMark Timber Trust had continued using the normalized depletion method, depletion expense for the three months and six months ended June 30, 2015 would have been $1.5 million and $2.6 million, or $0.04 and $0.07 per share, lower than the depletion expense it recorded using the straight-line depletion method.

Fair Value Measurements

CatchMark Timber Trust estimates the fair value of its assets and liabilities (where currently required under GAAP) consistent with the provisions of the accounting standard for fair value measurements and disclosures. Under this guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. While various techniques and assumptions can be used to estimate fair value depending on the nature of the asset or liability, the accounting standard for fair value measurements and disclosures provides the following fair value technique parameters and hierarchy, depending upon availability:

Level 1 — Assets or liabilities for which the identical term is traded on an active exchange, such as publicly-traded instruments or futures contracts.
Level 2 — Assets and liabilities valued based on observable market data for similar instruments.
Level 3 — Assets or liabilities for which significant valuation assumptions are not readily observable in the market. Such assets or liabilities are valued based on the best available data, some of which may be internally developed. Significant assumptions may include risk premiums that a market participant would require.

Interest Rate Swaps

CatchMark Timber Trust entered into an interest rate swap contract to mitigate its exposure to changing interest rates on variable rate debt instruments. CatchMark Timber Trust does not enter into derivative or interest rate transactions for speculative purposes; however, certain of its derivatives may not qualify for hedge accounting treatment. The fair values of interest rate swaps are recorded as either prepaid expenses and other assets or other liabilities in the accompanying consolidated balance sheets. Changes in the fair value of the effective portion of interest rate swaps that are designated as hedges are recorded as other comprehensive income (loss), while changes in the fair value of the ineffective portion of hedges, if any, are recognized in current earnings. Changes in the fair value of interest rate swaps that do not qualify for hedge accounting treatment are recorded as gain (loss) on interest rate swap in the consolidated statements of operations. Amounts received or paid under interest rate swaps are recorded as interest

Table of Contents

expense for contracts that qualify for hedge accounting treatment and as gain (loss) on interest rate swaps for contracts that do not qualify for hedge accounting treatment.

CatchMark Timber Trust applied the provisions of the accounting standard for fair value measurements and disclosures in recording its interest rate swaps at fair value. The fair values of interest rate swaps, classified under Level 2, were determined using a third-party proprietary model that is based on prevailing market data for contracts with matching durations, current and anticipated London Interbank Offered Rate ("LIBOR") information, consideration of CatchMark Timber Trust's credit standing, credit risk of counterparties, and reasonable estimates about relevant future market conditions.

The following table presents information about CatchMark Timber Trust's interest rate swap measured at fair value as of June 30, 2015 and December 31, 2014:

(amounts in thousands)		Estimated Fair Value as of	
Instrument Type	Balance Sheet Classification	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:			
Interest rate swap contract	Other liabilities	$(549)	$(856)

For additional information about CatchMark Timber Trust's interest rate swaps see Note 5 – Interest Rate Swap Agreement.

Earnings Per Share

Basic earnings (loss) per share available to common stockholders is calculated as net income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share available to common stockholders equals basic earnings per share available to common stockholders, adjusted to reflect the dilution that would occur if all outstanding securities convertible into common shares or contracts to issue common shares were converted or exercised and the related proceeds are then used to repurchase common shares.

Income Taxes

CatchMark Timber Trust has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), and has operated as such beginning with its taxable year ended December 31, 2009. To qualify to be taxed as a REIT, CatchMark Timber Trust must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its ordinary taxable income to its stockholders. As a REIT, CatchMark Timber Trust generally is not subject to federal income tax on taxable income it distributes to stockholders. CatchMark Timber Trust is subject to certain state and local taxes related to the operations of timberland properties in certain locations, which have been provided for in the accompanying consolidated financial statements. CatchMark Timber Trust records interest and penalties related to uncertain tax positions as general and administrative expense in the accompanying consolidated statements of operations.

CatchMark Timber Trust has elected to treat CatchMark TRS as a taxable REIT subsidiary. CatchMark Timber Trust may perform certain non-customary services, including real estate or non-real-estate related services, through CatchMark TRS. Earnings from services performed through CatchMark TRS are subject to federal and state income taxes irrespective of the dividends paid deduction available to REITs for federal income tax purposes. In addition, for CatchMark Timber Trust to continue to qualify to be taxed as a REIT, CatchMark Timber Trust’s investment in CatchMark TRS may not exceed 25% of the value of the total assets of CatchMark Timber Trust.

Deferred tax assets and liabilities represent temporary differences between the financial reporting basis and the tax basis of assets and liabilities based on the enacted rates expected to be in effect when the temporary differences reverse. Deferred tax expense or benefit is recognized in the financial statements according to the changes in deferred tax assets

Table of Contents

or liabilities between years. Valuation allowances are established to reduce deferred tax assets when it becomes more likely than not that such assets, or portions thereof, will not be realized.

No provision for federal income taxes has been made in the accompanying consolidated financial statements, other than the provision relating to CatchMark TRS, as CatchMark Timber Trust did not generate taxable income for the periods presented.

Recent Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation - Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 modifies existing consolidation guidance related to (i) limited partnerships and similar legal entities, (ii) the evaluation of variable interests for fees paid to decision makers or service providers, (iii) the effect of fee arrangements and related parties on the primary beneficiary determination, and (iv) certain investment funds. These changes are expected to limit the number of consolidation models and place more emphasis on risk of loss when determining a controlling financial interest. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The adoption of ASU 2015-02 will not have an impact on CatchMark Timber Trust's consolidated financial statements or associated disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. CatchMark Timber Trust is currently evaluating the impact of ASU 2015-03 on its consolidated financial statements and associated disclosures.

3. Timber Assets

As of June 30, 2015 and December 31, 2014, timber and timberlands consisted of the following, respectively:

	As of June 30, 2015		
(amounts in thousands)	Gross	Accumulated Depletion or Amortization	Net
Timber	$257,558	$12,598	$244,960
Timberlands	309,165	—	309,165
Mainline roads	632	361	271
Timber and timberlands	$567,355	$12,959	$554,396

	As of December 31, 2014		
(amounts in thousands)	Gross	Accumulated Depletion or Amortization	Net
Timber	$258,648	$14,788	$243,860
Timberlands	298,944	—	298,944
Mainline roads	614	317	297
Timber and timberlands	$558,206	$15,105	$543,101

13

Table of Contents

During the three months ended June 30, 2015 and 2014, CatchMark Timber Trust acquired fee-simple interests in approximately 9,700 and 44,300 acres of timberland for $12.8 million and $85.3 million, exclusive of closing costs, respectively.

During the six months ended June 30, 2015 and 2014, CatchMark Timber Trust acquired fee-simple interests in approximately 17,400 and 44,500 acres of timberland for $27.3 million and $85.5 million, exclusive of closing costs, respectively.

During the three months ended June 30, 2015 and 2014, CatchMark Timber Trust sold approximately 260 and 550 acres of timberland, respectively, for $0.6 million and $1.0 million, respectively. CatchMark Timber Trust's cost basis in the timberland sold was $0.3 million and $0.7 million, respectively.

During the six months ended June 30, 2015 and 2014, CatchMark Timber Trust sold approximately 3,660 and 580 acres of timberland, respectively, for $6.8 million and $1.1 million, respectively. CatchMark Timber Trust's cost basis in the timberland sold was $4.9 million and $0.7 million, respectively.

As of June 30, 2015, CatchMark Timber Trust owned interests in approximately 406,700 acres of timberlands in Alabama, Georgia, Florida, Louisiana, and Texas; 378,400 acres of which were held in fee-simple interests and 28,300 acres were held in leasehold interests.

4. Note Payable and Line of Credit

2014 Amended Credit Agreement

On December 23, 2014, CatchMark Timber Trust, through CatchMark Timber OP, entered into a fourth amended and restated credit agreement (the “2014 Amended Credit Agreement”) with CoBank, ACB ("CoBank"), Agfirst Farm Credit Bank ("AgFirst"), Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A. (“Rabobank”), and certain other financial institutions. The 2014 Amended Credit Agreement amended and restated the existing credit facility in its entirety.

The 2014 Amended Credit Agreement provides for borrowing under credit facilities consisting of:

- a $35.0 million revolving credit facility (the “2014 Revolving Credit Facility”),
- a $275.0 million multi-draw term credit facility (the “2014 Multi-Draw Term Facility”), and
- a $100.0 million term loan (the “2014 Term Loan Facility”, and together with the 2014 Revolving Credit Facility and the 2014 Multi-Draw Term Facility, the “2014 Amended Credit Facilities”).

The 2014 Amended Credit Agreement provides that the 2014 Amended Credit Facilities may be increased, upon the agreement of lenders willing to increase their loans, by up to $200.0 million.

Borrowings under the 2014 Revolving Credit Facility may be used for general working capital, to support letters of credit, to fund cash earnest money deposits, to fund acquisitions in an amount not to exceed $5.0 million, and other general corporate purposes. The 2014 Revolving Credit Facility will bear interest at an adjustable rate equal to a base rate plus between 0.50% and 1.50% or one-month LIBOR rate plus between 1.50% and 2.50% (the "LIBOR rate"), in each case depending on CatchMark Timber Trust's loan-to-collateral-value ratio (the "LTV Ratio"), and will terminate, and all amounts under the facility will be due and payable, on December 23, 2019.

The 2014 Multi-Draw Term Facility may be drawn upon up to eight times during the period beginning on December 23, 2014 through December 23, 2017 (the "2014 Multi-Draw Commitment Period") and may be used to finance domestic timber acquisitions and associated expenses, refinance loan amounts under the 2014 Revolving Credit

Facility, and purchase up to $25.0 million in CatchMark Timber Trust common stock. Amounts repaid under the 2014 Multi-Draw Term Facility may be re-borrowed prior to the third anniversary of the closing date. The 2014 Multi-Draw Term Facility will bear interest at an adjustable rate equal to a base rate plus between 0.75% and 1.75% or a LIBOR rate

Table of Contents

plus between 1.75% and 2.75%, in each case depending on the LTV Ratio, and will terminate, and all amounts under the facility will be due and payable, on December 23, 2021. The 2014 Multi-Draw Term Facility is interest only until the maturity date; however, if the LTV Ratio is equal to or in excess of 40% after the 2014 Multi-Draw Commitment Period, then principal payments will be required to be made beginning on December 31, 2017 at a per annum rate of 5% of the principal amount outstanding under the 2014 Multi-Draw Term Facility.

The 2014 Term Loan Facility was used solely to refinance the balance outstanding under the existing credit facilities. The 2014 Term Loan Facility bears interest at an adjustable rate equal to a base rate plus 1.75% or a LIBOR rate plus 1.75%, and will terminate, and all amounts under the facility will be due and payable, on December 23, 2024.

As a result of entering into the 2014 Amended Credit Agreement, CatchMark Timber Trust has become eligible to receive annual patronage refunds from its lenders (the "patronage banks"), a profit-sharing program made available to borrowers of the Farm Credit System lenders.

In March 2015, CatchMark Timber Trust received a patronage refund on its borrowings under the 2014 Amended Credit Agreement during 2014. The refund was calculated by CoBank and approximated 0.91% of CatchMark Timber Trust's weighted average balance outstanding under the 2014 Term Loan Facility and the 2014 Multi-Draw Term Facility (collectively, "patronage loans"). Of the total amount received, 75% was received in cash and 25% was received in equity in patronage banks. CatchMark Timber Trust expects to receive a patronage refund for 2015 and accrues for the expected refunds by multiplying the weighted average outstanding balance by 0.90%. For the three months and six months ended June 30, 2015, CatchMark Timber Trust recorded $0.3 million and $0.6 million, respectively, in patronage refunds as a credit to its interest expense, respectively.

CatchMark Timber Trust pays the lenders an unused commitment fee on the unused portion of the 2014 Multi-Draw Term Facility and 2014 Revolving Credit Facility, at an adjustable rate ranging from 0.20% to 0.35%, depending on the LTV Ratio.

As of June 30, 2015 and December 31, 2014, CatchMark Timber Trust's amounts outstanding under the 2014 Amended Credit Facilities consisted of the following:

		As of	
(amounts in millions)	Maturity Date	June 30, 2015	December 31, 2014
2014 Term Loan Facility	December 23, 2024	$100.0	$100.0
2014 Multi-Draw Term Facility	December 23, 2021	38.0	18.0
Total		$138.0	$118.0

Debt Covenants

The 2014 Amended Credit Agreement permits CatchMark Timber Trust to declare and pay dividends, distributions, and other payments to its stockholders as required to maintain its REIT qualification so long as certain events of default have not occurred or would result therefrom. Additionally, the 2014 Amended Credit Agreement subjects CatchMark Timber Trust to mandatory prepayment from proceeds generated from dispositions of timberlands. However, provided that no event of default has occurred, the mandatory prepayment excludes (1) 1.5% of the aggregate cost basis of CatchMark Timber Trust's timberland if its LTV Ratio is between 30% and 40% and up to 2.0% of the aggregate cost basis if its LTV Ratio does not exceed 30%; and (2) lease termination proceeds of less than $2.0 million in a single termination until aggregate lease termination proceeds during the term of the facility exceeds $5.0 million.

The 2014 Amended Credit Agreement contains, among others, the following financial covenants:

- limits the LTV Ratio to 45% at the end of each fiscal quarter and upon the sale or acquisition of any property; and

- requires a fixed coverage charge ratio of not less than 1.05:1.00.

Table of Contents

CatchMark Timber Trust was in compliance with the financial covenants of the 2014 Amended Credit Agreement as of June 30, 2015.

CatchMark Timber OP’s obligations under the 2014 Amended Credit Agreement are collateralized by a first priority lien on the timberlands owned by CatchMark Timber Trust’s subsidiaries and substantially all of CatchMark Timber OP’s and each of its subsidiaries’ other assets in which a security interest may lawfully be granted, including, without limitation, accounts, equipment, inventory, intellectual property, bank accounts and investment property. In addition, CatchMark Timber OP's obligations under the 2014 Amended Credit Agreement are jointly and severally guaranteed by all of CatchMark Timber Trust and its subsidiaries pursuant to the terms of the 2014 Amended Credit Agreement. CatchMark Timber Trust has also agreed to guarantee certain losses caused by certain willful acts of CatchMark Timber OP or its subsidiaries.

Interest Paid and Fair Value of Outstanding Debt

During the three months ended June 30, 2015 and 2014, CatchMark Timber Trust made interest payments of $0.8 million and $0.6 million, respectively, on its borrowings. Included in the interest payments for the three months ended June 30, 2015 and 2014 were unused commitment fees of $0.1 million and $0.1 million, respectively.

During the six months ended June 30, 2015 and 2014, CatchMark Timber Trust made interest payments of $1.4 million and $0.9 million, respectively, on its borrowings. Included in the interest payments for the six months ended June 30, 2015 and 2014 were unused commitment fees of $0.2 million and $0.2 million, respectively.

As of June 30, 2015 and December 31, 2014, the weighted-average interest rate on these borrowings, after consideration of an interest rate swap (see Note 5 – Interest Rate Swap Agreement), was 2.50% and 2.58%, respectively. As of June 30, 2015, the fair value of CatchMark Timber Trust's outstanding debt approximated its book value. The fair value was estimated based on discounted cash flow analysis using the current market borrowing rates for similar types of borrowing arrangements as of the measurement dates.

5. Interest Rate Swap Agreement

During the six months ended June 30, 2015, CatchMark Timber Trust used one interest rate swap agreement with Rabobank with a notional amount of $35.0 million to hedge its exposure to changing interest rates on its variable rate debt (the “2014 Rabobank Swap”). The 2014 Rabobank Swap became effective on December 23, 2014 and matures on December 23, 2024. Under the terms of the 2014 Rabobank Swap, CatchMark Timber Trust pays interest at a fixed rate of 2.395% per annum to Rabobank and receives one-month LIBOR-based interest payments from Rabobank. The 2014 Rabobank Swap qualifies for hedge accounting treatment.

During the six months ended June 30, 2015, CatchMark Timber Trust recognized a change in fair value of the 2014 Rabobank Swap of approximately $0.3 million as other comprehensive income. There was no hedge ineffectiveness on the 2014 Rabobank Swap required to be recognized in current earnings. Net payments of approximately $0.4 million made under the 2014 Rabobank Swap by CatchMark Timber Trust during the six months ended June 30, 2015 were recorded as interest expense.

6. Commitments and Contingencies

Mahrt Timber Agreements

CatchMark Timber Trust is party to a fiber supply agreement and a master stumpage agreement (collectively, the “Mahrt Timber Agreements”) with a wholly owned subsidiary of WestRock Company (“WestRock”), formerly known as MeadWestvaco Corporation ("MeadWestvaco"). The fiber supply agreement provides that WestRock will purchase specified tonnage of timber from CatchMark TRS at specified prices per ton, depending upon the type of timber. The fiber supply agreement is subject to quarterly market pricing adjustments based on an index published by Timber Mart-South, a quarterly trade publication that reports raw forest product prices in 11 southern states. The master stumpage

Table of Contents

agreement provides that CatchMark Timber Trust will sell specified amounts of timber and make available certain portions of its timberlands to CatchMark TRS for harvesting. The initial term of the Mahrt Timber Agreements is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. The Mahrt Timber Agreements ensure a long-term source of supply of wood fiber products for WestRock in order to meet its paperboard and lumber production requirements at specified mills and provide CatchMark Timber Trust with a reliable customer for the wood products from its timberlands.

FRC Timberland Operating Agreement

CatchMark Timber Trust is party to certain timberland operating agreements with Forest Resource Consultants, Inc. (“FRC”). Pursuant to the terms of the timberland operating agreements, FRC manages and operates all of CatchMark Timber Trust's timberlands and related timber operations in Alabama, Georgia, Florida, Louisiana, and Texas, and ensures compliance with the timber supply agreements. In consideration for rendering the services described in the timberland operating agreements, CatchMark Timber Trust pays FRC (i) a monthly management fee based on the actual acreage FRC manages, which is payable monthly in advance, and (ii) an incentive fee based on timber harvest revenues generated by the timberlands, which is payable quarterly in arrears. The timberland operating agreements, as amended, are effective through March 31, 2017, with the option to extend for one-year periods and may be terminated by either party with mutual consent or by CatchMark Timber Trust with or without cause upon providing 120 days’ prior written notice.

Litigation

From time to time, CatchMark Timber Trust may be a party to legal proceedings, claims, and administrative proceedings that arise in the ordinary course of its business. Management makes assumptions and estimates concerning the likelihood and amount of any reasonably possible loss relating to these matters using the latest information available. CatchMark Timber Trust records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, CatchMark Timber Trust accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, CatchMark Timber Trust accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, CatchMark Timber Trust discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, CatchMark Timber Trust discloses the nature and estimate of the possible loss of the litigation. CatchMark Timber Trust does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote.

CatchMark Timber Trust is not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on the results of operations, financial condition, or cash flows of CatchMark Timber Trust. CatchMark Timber Trust is not aware of any such legal proceedings contemplated by governmental authorities.

7. Class B-3 Common Stock Conversion and Stock-based Compensation

Class B-3 Common Stock Conversion

On February 18, 2015, the board of directors approved the acceleration of the conversion of all of CatchMark Timber Trust's Class B-3 common stock into Class A common stock from June 12, 2015 to February 27, 2015. Upon completion of this conversion, all outstanding shares of CatchMark Timber Trust's common stock are shares of Class A common stock, eligible to trade on the NYSE.

Stock-based Compensation

CatchMark Timber Trust grants restricted stock to its employees and independent directors pursuant to its long-term incentive plan (the "LTIP"). The awards are granted by the compensation committee of the board of directors of CatchMark Timber Trust (the "Compensation Committee"). Service-based restricted stock grants typically vest ratably

Table of Contents

over a multi-year period. Performance-based restricted stock grants are awarded to the executive officers and the restricted shares may be earned based on the level of achievement of certain pre-determined performance goals over the performance period. Maximum number of shares that could be earned are awarded on the grant date. Earned awards are determined by the Compensation Committee after the end of the performance period and vest over a period specific to each performance grant.

During the six months ended June 30, 2015, CatchMark Timber Trust granted the following restricted shares of its Class A common stock:

	Employees	Independent Directors	Total
Service-based restricted stock [1] [2]	77,900	12,585	90,485
Performance-based restricted stock [3]	112,900	—	112,900
Total	190,800	12,585	203,385

[1] The service-based restricted stock issued to employees vests over four years.
[2] The service-based restricted stock issued to independent directors vests over three years.
[3] The performance-based restricted stock awards (the "2015 Performance Awards") represent the maximum number of shares that could be earned by the executive officers based on the relative performance of CatchMark Timber Trust's total shareholder return (the "TSR") as compared to a pre-established peer group's TSR and to the Russell 3000 Index. 50% of the earned award vests on the date it is determined by the Compensation Committee and the remaining 50% vests on the one year anniversary of the determination date.

A rollforward of CatchMark Timber Trust's unvested restricted stock award activity for the six months ended June 30, 2015 is as follows:

	Employees		Independent Directors	
	Number of Underlying Shares	Weighted Average Grant Date Fair Value	Number of Underlying Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	91,500	$13.54	13,608	$14.42
Granted	190,800	8.89	12,585	11.92
Vested	—	—	(3,625)	13.79
Forfeited	(10,200)	13.51	—	—
Unvested at June 30, 2015	272,100	$10.28	22,568	$13.12

The fair value of serviced-based restricted stock grants is determined by the close price of CatchMark Timber Trust's common stock on the grant date. The fair value of the 2015 Performance Award was calculated using the Monte-Carlo simulation with the following assumptions:

Grant date market price (February 18, 2015)	$11.63
Weighted average fair value per granted share	$7.01
Assumptions:	
Volatility	38.54%
Expected term (years)	3.0
Risk-free interest rate	1.06%

During the three months ended June 30, 2015 and 2014, CatchMark Timber Trust recognized approximately $0.2 million and $0.1 million, respectively, of stock-based compensation expense. During the six months ended June 30, 2015 and 2014, CatchMark Timber Trust recognized approximately $0.4 million and $0.2 million, respectively, of stock-based compensation expense. As of June 30, 2015, approximately $2.5 million of unrecognized compensation expenses related to non-vested restricted stock remained and will be recognized over a weighted-average period of 3.5 years.

Table of Contents

8. Related-Party Transactions and Agreements

Prior to becoming a self-managed company, CatchMark Timber Trust was externally managed by Wells Timberland Management Organization, LLC. ("Wells TIMO"), which was a wholly owned subsidiary of Wells Real Estate Funds, Inc. ("Wells REF"). On September 18, 2013, CatchMark Timber Trust entered into the Master Self-Management Transition Agreement (the "Master Agreement") with Wells REF and Wells TIMO (collectively "Wells"), which set forth the framework for CatchMark Timber Trust's separation from Wells and its transition to self-management.

Pursuant to the Master Agreement, CatchMark Timber Trust and Wells entered into a Transition Services Agreement (the "TSA") on October 25, 2013, pursuant to which Wells provided certain consulting, support, and transitional services to CatchMark Timber Trust at the direction of CatchMark Timber Trust in order to facilitate CatchMark Timber Trust's successful transition to self-management. In exchange for the services provided by Wells under the TSA, CatchMark Timber Trust paid Wells a monthly consulting fee of $22,875 (the "Consulting Fee"). The TSA remained in effect until June 30, 2014.

Also pursuant to the Master Agreement, CatchMark Timber Trust and Wells entered into a Sublease Agreement (the "Sublease") on October 25, 2013, pursuant to which CatchMark Timber Trust sublet from Wells a portion of the office space used and occupied by Wells. The term of the Sublease commenced on October 25, 2013 and terminated on March 31, 2014.

CatchMark Timber Trust incurred the following related-party costs for three months and six months ended June 30, 2014, respectively:

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Consulting fees	$68,625	$137,250
Office rent	17,883	17,883
Total	$86,508	$155,133

The related-party costs were included in general and administrative expenses in the accompanying consolidated statements of operations.

9. Supplemental Disclosures of Noncash Activities

Outlined below are significant noncash investing and financing transactions for the six months ended June 30, 2015 and 2014, respectively:

(amounts in thousands)	2015	2014
Dividends declared but not paid	$—	$3,123

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I, as well as our consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Overview

We primarily engage in the ownership, management, acquisition, and disposition of timberland properties located in the United States. As of June 30, 2015, we owned interests in approximately 406,700 acres of timberland within an attractive and competitive fiber basket encompassing a numerous and diverse group of pulp, paper and wood products manufacturing facilities, consisting of 74% pine stands and 26% hardwood stands. We believe that our timberlands are high-quality industrial forestlands that have been intensively managed for sustainable commercial timber production.

We generate recurring income and cash flow from the harvest and sale of timber, as well as from non-timber related revenue sources, such as recreational leases. When and where we believe it is appropriate, we also periodically generate income and cash flow from the sale of HBU timberland. We also expect to realize additional long-term returns from the potential appreciation in value of our timberlands as well as from the potential biological growth of our standing timber inventory in excess of our timber harvest. A substantial portion of our timber sales are derived from the Mahrt Timber Agreements under which we sell specified amounts of timber to WestRock(formerly known as MeadWestvaco), subject to market pricing adjustments. For the six months ended June 30, 2015 and 2014, approximately 22% and 35% of our net timber sales revenue was derived from the Mahrt Timber Agreements, respectively. See Note 6 – Commitments and Contingencies of our accompanying consolidated financial statements for additional information regarding the material terms of the Mahrt Timber Agreements.

For the six months ended June 30, 2015, we completed five timberland acquisitions in Georgia and Texas, totaling approximately 17,400 acres for $27.9 million. The acquisitions added 0.6 million tons to our merchantable timber inventory, comprised of 72% pine plantations by acreage and 56% sawtimber by tons. As of June 30, 2015, our timber inventory consisted of an estimated 14.6 million of merchantable inventory with the following components:

	Tons (in millions)		
Merchantable timber inventory[(1)]:	Fee	Lease	Total
Pulpwood	7.1	0.4	7.5
Sawtimber [(2)]	6.7	0.4	7.1
Total:	13.8	0.8	14.6

(1) Merchantable timber inventory does not include current year growth, which should approximate current year harvest volumes (see Results of Operations below for information on current year harvest volume)

(2) Includes chip-n-saw and sawtimber.

The focus of our business is to invest in timberlands and to actively manage our assets to provide current income and attractive long-term returns to our stockholders. Our immediate emphasis is to grow through accretive acquisitions. We continue to build our pipeline of potential acquisitions focused in the U.S. South, where we see the best value opportunities, and the increase in our available credit capacity (see discussions within Liquidity and Capital Resources below) should facilitate closing on additional transactions expeditiously. Our most significant risks and challenges include our ability to access a sufficient amount of capital that will allow us to further grow and diversify our portfolio of timber assets.

Liquidity and Capital Resources

20

Table of Contents

The 2014 Amended Credit Agreement provides the following credit facilities for borrowing:
- a $35 million revolving credit facility,
- a $275 million multi-draw term credit facility, and
- a $100 million term loan.

The 2014 Amended Credit Agreement provides that the 2014 Amended Credit Facilities may be increased, upon the agreement of lenders willing to increase their loans, by up to $200 million.

Borrowings under the 2014 Revolving Credit Facility may be used for general working capital, to support letters of credit, to fund cash earnest money deposits, to fund acquisitions in an amount not to exceed $5 million, and other general corporate purposes. The 2014 Revolving Credit Facility will bear interest at an adjustable rate equal to a base rate plus between 0.50% and 1.50% or a LIBOR rate plus between 1.50% and 2.50%, in each case depending on our LTV Ratio, and will terminate, and all amounts under the facility will be due and payable, on December 23, 2019.

The 2014 Multi-Draw Term Facility may be drawn upon up to eight times during the period beginning on December 23, 2014 through December 23, 2017 and may be used to finance domestic timber acquisitions and associated expenses, refinance loan amounts under the 2014 Revolving Credit Facility, and purchase up to $25 million in our common stock. Amounts repaid under the 2014 Multi-Draw Term Facility may be re-borrowed prior to the third anniversary of the closing date. The 2014 Multi-Draw Term Facility will bear interest at an adjustable rate equal to a base rate plus between 0.75% and 1.75% or a LIBOR rate plus between 1.75% and 2.75%, in each case depending on the LTV Ratio, and will terminate, and all amounts under the facility will be due and payable, on December 23, 2021. The 2014 Multi-Draw Term Facility is interest only until the maturity date; however, if the our LTV Ratio is equal to or in excess of 40% after the 2014 Multi-Draw Commitment Period, then principal payments will be required to be made beginning on December 31, 2017 at a per annum rate of 5% of the principal amount outstanding under the 2014 Multi-Draw Term Facility.

The 2014 Term Loan Facility was used solely to refinance the balance outstanding under our existing credit facility. The 2014 Term Loan Facility bears interest at an adjustable rate equal to a base rate plus 1.75% or a LIBOR rate plus 1.75%, and will terminate, and all amounts under the facility will be due and payable, on December 23, 2024.

As a result of entering into the 2014 Amended Credit Agreement, we have become eligible to receive annual patronage refunds, a profit-sharing program made available to borrowers of the patronage banks. The annual patronage refund is dependent on the weighted average debt balance with each participating lender, as calculated by CoBank, for the respective fiscal year under patronage loans, as well as the financial performance of the patronage banks. In March 2015, we received a patronage refund on our borrowings during the nine days of 2014 where the 2014 Amended Credit Facilities were outstanding. Of the total amount received, 75% was received in cash and 25% was received in equity in patronage banks.

As of June 30, 2015, $138.0 million was outstanding under the 2014 Amended Credit Facilities, of which $100.0 million was outstanding under the 2014 Term Loan Facility and $38.0 million was outstanding under the 2014 Multi-Draw Term Facility.

The 2014 Amended Credit Agreement contains, among others, the following financial covenants:
- limits the LTV Ratio to 45% at the end of each fiscal quarter and upon the sale or acquisition of any property; and
- requires we must maintain a fixed coverage charge ratio of not less than 1.05:1.

We were in compliance with the financial covenants of the 2014 Amended Credit Agreement as of June 30, 2015.

Short-Term Liquidity and Capital Resources

Table of Contents

Net cash provided by operating activities for the six months ended June 30, 2015 was $15.6 million, a $8.7 million increase from the six months ended June 30, 2014, primarily driven by an increase of $5.5 million in net cash receipts from timber sales and a $5.3 million increase in net revenue from timberland sales, offset by increases in general and administrative expenses, other operating expenses, and forestry management expenses due to the growth of our business.

For the six months ended June 30, 2015, we used $27.7 million to acquire timberland properties (including transaction costs) and $1.1 million in reforestation, building roads and fixed asset purchases.

Net cash provided by financing activities for the six months ended June 30, 2015 was $9.9 million and represented proceeds from borrowing under the 2014 Multi-Draw Term Facility, offset by debt repayments and dividend payments to our common stockholders.

We believe that we have access to adequate liquidity and capital resources, including cash flow generated from operations, cash on-hand, and borrowing capacity, necessary to meet our current and future obligations that become due over the next 12 months.

Long-Term Liquidity and Capital Resources

Over the long-term, we expect our primary sources of capital to include net cash flows from operations, including proceeds from selective property sales; proceeds from secured and unsecured financings from banks and other lenders, and public offerings of our common stock. Our principal demands for capital include operating expenses, interest expense on any outstanding indebtedness, certain capital expenditures (other than timberland acquisitions), repayment of debt, timberland acquisitions, and stockholder distributions. The amount of cash available for distribution to stockholders and the level of discretionary distributions declared will depend primarily upon the amount of cash generated from our operating activities, our determination of funding needs for near-term capital and debt service requirements, and our expectations of future cash flows.

In determining how to allocate cash resources in the future, we will initially consider the source of the cash. We anticipate using a portion of cash generated from operations, after payments of periodic operating expenses and interest expense, to fund certain capital expenditures required for our timberlands. Any remaining cash generated from operations may be used to partially fund timberland acquisitions and pay distributions to stockholders. Therefore, to the extent that cash flows from operations are lower, timberland acquisitions and stockholder distributions are anticipated to be lower as well. Proceeds from debt financings and future equity offerings may be used to acquire timberlands, fund capital expenditures, and pay down existing and future borrowings.

Our bylaws preclude us from incurring debt in excess of 200% of our net assets. As of June 30, 2015, our debt-to-net-assets ratio as a percentage of our total gross assets (other than intangibles) less total liabilities, was approximately 25%. Our debt-to-net-assets ratio will vary based on our level of current and future borrowings, which will depend on the level of net cash flows from operations, our acquisition activities, and proceeds raised from public offerings of our common stock. Before additional borrowings and equity issuances, principal payments, and timberland acquisitions or dispositions, we expect our debt-to-net-assets ratio to remain relatively stable in the near future.

Contractual Obligations and Commitments

As of June 30, 2015, our contractual obligations are as follows:

22

Table of Contents

Contractual Obligations	Payments Due by Period				
(amounts in thousands)	Total	2015	2016-2017	2018-2019	Thereafter
Debt obligations	$138,002	$—	$—	$—	$138,002
Estimated interest on debt obligations (1)	30,438	1,723	6,891	6,891	14,933
Operating lease obligations (2)	4,088	41	1,294	1,189	1,564
Other liabilities (3)	630	9	218	184	219
Total	$173,158	$1,773	$8,403	$8,264	$154,718

(1) Amounts included the impact of an interest rate swap. See Note 5 – Interest Rate Swap Agreement of our accompanying consolidated financial statements for additional information.
(2) Includes payment obligation on approximately 7,330 acres that are subleased to a third party.
(3) Represents net present value of future payments to satisfy a liability assumed upon a timberland acquisition.

Results of Operations

Overview

Our results of operations are materially impacted by the fluctuating nature of timber prices, changes in the levels and composition of our harvest volumes, the level of timberland acquisitions and sales, changes to associated depletion rates, and varying interest expense based on the amount and cost of outstanding borrowings. Timber prices, harvest volumes, and changes in the levels and composition of each for our timberlands for the three months and six months ended June 30, 2015 and 2014 are shown in the following tables:

	Three Months Ended June 30,		Change	
	2015	2014	%	
Timber sales volume (tons)				
Pulpwood	291,995	236,300	24	%
Sawtimber (1)	156,575	124,478	26	%
	448,570	360,778	24	%
Net timber sales price (per ton)(2)				
Pulpwood	$13	$13	—	%
Sawtimber	$26	$24	8	%
Timberland sales				
Gross sales	$591,132	$1,024,539		
Sales volumes (acres)	258	547		
Sales price (per acre)	$2,291	$1,873		

Table of Contents

	Six Months Ended June 30, 2015	2014	Change %	
Timber sales volume (tons)				
Pulpwood	554,067	413,540	34	%
Sawtimber [(1)]	331,910	210,788	57	%
	885,977	624,328	42	%
Net timber sales price (per ton)[(2)]				
Pulpwood	$13	$13	—	%
Sawtimber	$26	$23	13	%
Timberland sales				
Gross sales	$6,765,227	$1,089,789		
Sales volumes (acres)	3,658	576		
Sales price (per acre)	$1,849	$1,892		

(1) Includes sales of chip-n-saw and sawtimber.

(2) Prices per ton are rounded to the nearest dollar and shown on a stumpage basis (i.e., net of contract logging and hauling costs) and, as such, the sum of these prices multiplied by the tons sold does not equal timber sales in the accompanying consolidated statements of operations for the three months and six months ended June 30, 2015 and 2014.

Comparison of the three months ended June 30, 2015 versus the three months ended June 30, 2014

Revenues. Revenues increased to $14.2 million for the three months ended June 30, 2015 from $11.9 million for the three months ended June 30, 2014 due to an increase in timber sales revenue of $2.5 million, an increase in other revenues of $0.2 million, offset by a decrease in timberland sales revenue of $0.4 million. Gross timber sales revenue increased by approximately 25%, mainly due to a 24% increase in harvest volume as a result of incremental harvest on properties acquired in the past 12 months. Timberland sales revenue decreased due to selling fewer acres in 2015. Other revenues increased due to having more acres under recreational leases due to the growth of our timberland portfolio.

Details of timber sales by product for the three months ended June 30, 2015 and 2014 are shown in the following table:

(amounts in thousands)	Three Months Ended June 30, 2014	Changes attributable to: Price	Volume	Three Months Ended June 30, 2015
Timber sales [(1)]				
Pulpwood	$6,111	$(65)	$887	$6,933
Sawtimber [(2)]	4,062	150	1,527	5,739
	$10,173	$85	$2,414	$12,672

(1) Timber sales are presented on a gross basis.

(2) Includes sales of chip-n-saw and sawtimber.

Operating expenses. Contract logging and hauling costs increased to $4.8 million for the three months ended June 30, 2015 from $4.2 million for the three months ended June 30, 2014 as a result of an approximately 17% increase in delivered sales volume primarily from harvest on our recently acquired properties, offset by an approximately 2% decrease in weighted average cost per ton due to a decrease in average hauling distance to mills. Depletion expense increased to $6.4 million for the three months ended June 30, 2015 from $3.7 million for the three months ended June 30, 2014 due to an approximately 24% increase in harvest volume and higher blended depletion rates. As a result of changing to the straight-line depletion method in the first quarter of 2015, depletion expense on our long-term fee timber was $1.5 million higher than it would have been under the normalized depletion method. Harvest from properties

24

Table of Contents

acquired in the past 12 months deplete at higher rates than our long-term fee timber. For additional information on change of depletion method, see Application of Critical Accounting Policies below.

Costs of timberland sales decreased to $0.4 million for the three months ended June 30, 2015 due to selling fewer acres. Other operating expenses increased to $0.9 million for the three months ended June 30, 2015 from $0.7 million for the three months ended June 30, 2014, primarily as a result of higher property taxes and other costs associated with having more acres under management.

Forestry management expenses increased to $1.1 million for the three months ended June 30, 2015 from $0.8 million for the three months ended June 30, 2014. FRC management fees are earned based on number acres under management and timber sales revenue generated. The increase in 2015 was a result of having more acres under management and generating higher timber sales revenue driven by the growth of our timberland portfolio.

General and administrative expenses increased to $1.9 million for the three months ended June 30, 2015 from $1.1 million for the three months ended June 30, 2014 due to higher legal costs and compensation costs. Our legal costs increased by $0.5 million primarily due to receiving an insurance recovery claim of $0.6 million in 2014 under our director and officer insurance policy for costs and expenses associated with the SEC's on-going investigation into Wells Investment Securities, Inc. ("WIS"), the dealer-manager of our two completed non-listed public offerings, and us (See Related-Party Transactions and Agreements below). Compensation costs increased by $0.3 million as a result of new restricted stock issuances under the LTIP and an increase in the number of full-time employees due to the growth of our business.

Interest expense. Interest expense increased to $0.9 million for the three months ended June 30, 2015 from $0.8 million for the three months ended June 30, 2014 primarily due to a higher average outstanding debt balance and a higher fixed rate under our current interest rate swap agreement, offset by accrued patronage refunds of $0.3 million.

Net loss. Our net loss increased to $2.3 million for the three months ended June 30, 2015 from $0.3 million for the three months ended June 30, 2014 as a result of incurring an operating loss and an increase in interest expense. We incurred an operating loss of $1.5 million for the three months ended June 30, 2015 as compared to generating operating income of $0.4 million for the three months ended June 30, 2014, primarily due to a $2.7 million increase in depletion expense, a $0.8 million increase in general and administrative expenses and a $0.3 million increase in other operating expenses, offset by a $1.9 million increase in net timber sales revenue. Our net loss per share available to common stockholders for the three months ended June 30, 2015 and 2014 was $0.06 and $0.01, respectively. We anticipate future net losses to fluctuate with timber prices, harvest volumes, timberland sales, and interest expense based on our level of current and future borrowings.

Comparison of the six months ended June 30, 2015 versus the six months ended June 30, 2014

Revenues. Revenues increased to $34.4 million for the six months ended June 30, 2015 from $20.8 million for the six months ended June 30, 2014 due to an increase in timber sales revenue of $7.5 million, an increase in timberland sales revenue of $5.7 million, and an increase in other revenues of $0.5 million. Gross timber sales revenue increased by approximately 41%, mainly due to a 42% increase in harvest volume as a result of incremental harvest on properties acquired in the past 12 months. Timberland sales revenue increased due to selling more acres in 2015. Other revenues increased due to having more acres under recreational leases due to the growth of our timberland portfolio.

Details of timber sales by product for the six months ended June 30, 2015 and 2014 are shown in the following table:

Table of Contents

(amounts in thousands)	Six Months Ended June 30, 2014	Changes attributable to: Price	Volume	Six Months Ended June 30, 2015
Timber sales [(1)]				
Pulpwood	$10,922	$(173)	$2,995	$13,744
Sawtimber [(2)]	7,348	298	4,376	12,022
	$18,270	$125	$7,371	$25,766

(1) Timber sales are presented on a gross basis.
(2) Includes sales of chip-n-saw and sawtimber.

Operating expenses. Contract logging and hauling costs increased to $9.9 million for the six months ended June 30, 2015 from $8.0 million for the six months ended June 30, 2014 as a result of an approximately 27% increase in delivered sales volume primarily from harvest on our recently acquired properties, slightly offset by an approximately 1% decrease in weighted average cost per ton due to a decrease in average hauling distance to mills. Delivered sales as a percentage of our total harvest volume decreased from approximately 70% for the six months ended June 30, 2014 to approximately 62% for the six months ended June 30, 2015. Depletion expense increased to $12.6 million for the six months ended June 30, 2015 from $5.5 million for the six months ended June 30, 2014 due to a 42% increase in harvest volume and higher blended depletion rates. As a result of changing to the straight-line depletion method in the first quarter of 2015, depletion expense on our long-term fee timber was $2.6 million higher than it would have been under the normalized depletion method. Harvest from properties acquired in the past 12 months deplete at higher rates than our long-term fee timber. For additional information on change of depletion method, see Application of Critical Accounting Policies below.

Costs of timberland sales increased to $5.4 million for the six months ended June 30, 2015 from $0.8 million for the six months ended June 30, 2014 due to selling more acres. Other operating expenses increased to $1.9 million for the six months ended June 30, 2015 from $1.3 million for the six months ended June 30, 2014, primarily as a result of higher property taxes and other costs associated with having more acres under management.

Forestry management expenses increased to $2.2 million for the six months ended June 30, 2015 from $1.5 million for the six months ended June 30, 2014. FRC management fees are earned based on number acres under management and timber sales revenue generated. The increase in 2015 was a result of having more acres under management and generating higher timber sales revenue driven by the growth of our timberland portfolio.

General and administrative expenses increased to $3.5 million for the six months ended June 30, 2015 from $2.8 million for the six months ended June 30, 2014 due to higher compensation costs and legal fees. Compensation costs increased by $0.5 million s a result of new restricted stock issuances under the LTIP and an increase in the number of full-time employees due to the growth of our business. Legal costs increased by $0.2 million primarily due to receiving a net insurance recovery claim of $0.4 million in 2014 under our director and officer insurance policy as described above.

Interest expense. Interest expense increased to $1.7 million for the six months ended June 30, 2015 from $1.2 million for the six months ended June 30, 2014 primarily due to a higher average debt balance through the period and a higher fixed rate under our current interest rate swap agreement, offset by accrued patronage refunds of $0.6 million.

Net loss. Our net loss increased to $3.1 million for the six months ended June 30, 2015 from $0.7 million for the six months ended June 30, 2014 as a result of incurring an operating loss and an increase in interest expense. We incurred an operating loss of $1.5 million for the six months ended June 30, 2015 as compared to generating operating income of $0.4 million for the six months ended June 30, 2014, primarily due to a $7.1 million increase in depletion expense, $0.8 million increase in general and administrative expenses, and a $0.5 million increase in other operating expenses, offset by a $5.5 million increase in net timber sales revenue and a $1.1 million increase in timberland sales revenue net of costs of timberland sales. Our net loss per share available to common stockholders for the six months ended

Table of Contents

June 30, 2015 and 2014 was $0.08 and $0.03, respectively. We anticipate future net losses to fluctuate with timber prices, harvest volumes, timberland sales, and interest expense based on our level of current and future borrowings.

Adjusted EBITDA

The discussion below is intended to enhance the reader's understanding of our operating performance and our ability to satisfy lender requirements. Earnings from Continuing Operations before Interest, Taxes, Depletion, and Amortization ("EBITDA") is a non-GAAP measure of operating performance. EBITDA is defined by the SEC; however, we have excluded certain other expenses due to their non-cash nature, and we refer to this measure as Adjusted EBITDA. As such, our Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies and should not be viewed as an alternative to net income or cash from operations as measurements of our operating performance. Due to significant amount of timber assets subject to depletion and significant amount of financing subject to interest and amortization expense, management considers Adjusted EBITDA to be an important measure of our financial condition and performance. Our credit agreements contains a minimum debt service coverage ratio based, in part, on Adjusted EBITDA since this measure is representative of adjusted income available for interest payments.

For the three months ended June 30, 2015, Adjusted EBITDA was $5.5 million, a $0.5 million increase from the three months ended June 30, 2014, primarily due to a $1.9 million increase in net timber sales, offset by a $0.4 million decrease in net revenue from timberland sales, a $0.7 million increase in cash general and administrative expenses, and a $0.3 million increase in other operating expenses.

For the six months ended June 30, 2015, Adjusted EBITDA was $16.5 million, a $9.5 million increase from the six months ended June 30, 2014, primarily due to a $5.5 million increase in net timber sales and a $5.3 million increase in net revenue from timberland sales, offset by a $0.6 million increase in cash general and administrative expenses, and a $0.5 million increase in other operating expenses.

Our reconciliation of net loss to Adjusted EBITDA for the three months and six months ended June 30, 2015 and 2014 follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(amounts in thousands)	2015	2014	2015	2014
Net loss	$(2,330)	$(349)	$(3,147)	$(737)
Add:				
Depletion	6,396	3,729	12,598	5,533
Basis of timberland sold	327	706	4,894	744
Amortization (1)	210	131	390	226
Stock-based compensation expense	233	96	411	179
Interest expense (1)	671	677	1,323	987
Adjusted EBITDA	$5,507	$4,990	$16,469	$6,932

(1) For the purpose of the above reconciliation, amortization includes amortization of deferred financing costs, amortization of intangible lease assets, and amortization of mainline road costs, which are included in either interest expense, land rent expense, or other operating expenses in the accompanying consolidated statements of operations.

Election as a REIT

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), and have operated as such beginning with our taxable year ended December 31, 2009. To qualify to be taxed as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders, computed without regard to the dividends-paid deduction and by excluding our net capital gain. As a REIT, we generally will not be subject to federal income tax on

Table of Contents

taxable income that we distribute to our stockholders. If we fail to qualify to be taxed as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

Inflation

In connection with the acquisition of the Mahrt Timberland, we entered into the Mahrt Timber Agreements with WestRock, formerly known as MeadWestvaco. The Mahrt Timber Agreements provide that we will sell to WestRock specified amounts of timber subject to quarterly market pricing adjustments and monthly fuel pricing adjustments, which are intended to protect us from, and mitigate the risk of, the impact of inflation. The price of timber has generally increased with increases in inflation; however, we have not noticed a significant impact from inflation on our revenues, net sales, or income from continuing operations.

Application of Critical Accounting Policies

Our accounting policies have been established to conform to GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied or different amounts of assets, liabilities, revenues, and expenses would have been recorded, thus resulting in a different presentation of the financial statements or different amounts reported in the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

A discussion of the accounting policies that management deems critical because they may require complex judgment in their application or otherwise require estimates about matters that are inherently uncertain, is provided below.

Timber Assets

Timber and timberlands, including logging roads, are stated at cost less accumulated depletion for timber harvested and accumulated amortization. We capitalize timber and timberland purchases. Reforestation costs, including all costs associated with stand establishment, such as site preparation, costs of seeds or seedlings, planting, fertilization and herbicide application, are capitalized. Timber carrying costs, such as real estate taxes, insect control, wildlife control, leases of timberlands and forestry management personnel salaries and fringe benefits, are expensed as incurred. Costs of major roads are capitalized and amortized over their estimated useful lives. Costs of roads built to access multiple logging sites over numerous years are capitalized and amortized over seven years. Costs of roads built to access a single logging site are expensed as incurred.

Depletion

We recognize depletion expense as timber is harvested. Prior to January 1, 2015, depletion rates for fee timber held longer than 12 months were determined annually using the normalized depletion method, by dividing (a) the sum of (i) net carrying value of merchantable and premerchantable timber, and (ii) projected approved reforestation costs to be capitalized over the remaining harvest cycle; by (b) the estimated merchantable timber volume expected to be harvested over the same period. The projected future harvest volume is derived by running a specialized modeling software based on the specific management regime adapted and a set of scientific formulas. Significant management judgments were involved to develop estimates of future harvest volumes and future reforestation costs.

28

Effective January 1, 2015, we changed the depletion method on its long-term fee timber to the straight-line method. The straight-line depletion rates are established at least annually by dividing the book value by current standing timber inventory volume. We believe the change from the normalized depletion method to the straight-line depletion method is preferable as the straight-line method is based on the actual costs recorded and volumes of timber that are merchantable as of the date that the depletion rates are determined. It is less reliant on subjective and complex estimates as it does not include future costs to be incurred or expected timber growth. Therefore, the straight-line depletion method provides for a more disaggregated tracking of costs and volumes and allocation of costs as the timber is harvested.

In accordance with FASB ASC 250, we determined that the change in depletion method is a change in accounting estimate effected by a change in accounting principle, and accordingly, the straight-line method will be applied on a prospective basis.

Evaluating the Recoverability of Timber Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our timber assets may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of timber assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. Impairment losses would be recognized for (i) long-lived assets used in our operations when the carrying value of such assets exceeds the undiscounted cash flows estimated to be generated from the future operations of those assets, and (ii) long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs. Estimated fair values are calculated based on the following information in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We intend to use one harvest cycle for the purpose of evaluating the recoverability of timber and timberlands used in our operations. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes and are discounted at risk-free rates of interest. We consider assets to be held for sale at the point at which a sale contract is executed and the buyer has made a nonrefundable earnest money deposit against the contracted purchase price. We have determined that there has been no impairment of our long-lived assets to date.

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of timberland properties, we allocate the purchase price to tangible assets, consisting of timberland and timber, and identified intangible assets and liabilities, which may include values associated with in-place leases or supply agreements, based in each case on our estimate of their fair values. The fair values of timberland and timber are determined based on available market information and estimated cash flow projections that utilize appropriate discount factors and capitalization rates. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The values are then allocated to timberland and timber based on our determination of the relative fair value of these assets.

Revenue Recognition

Revenue from the sale of timber is recognized when the following criteria are met: (i) persuasive evidence of an agreement exists, (ii) legal ownership and the risk of loss are transferred to the purchaser, (iii) price and quantity are determinable, and (iv) collectability is reasonably assured. Our primary sources of revenue are recognized as follows:

(1) For delivered sales contracts, which include amounts sufficient to cover costs of logging and hauling of timber, revenues are recognized upon delivery to the customer.

(2) For pay-as-cut contracts, the purchaser acquires the right to harvest specified timber on a tract, at an agreed-upon price per unit. Payments and contract advances are recognized as revenue as the timber is harvested based on the contracted sale rate per unit.

(3) Revenues from the sale of higher-and-better use timberland and nonstrategic timberlands are recognized when title passes and full payment or a minimum down payment is received and full collectability is assured.

29

Table of Contents

If a down payment of less than the minimum down payment is received at closing, we will record revenue based on the installment method.

(4) For recreational leases, rental income collected in advance is recorded as other liabilities in the accompanying consolidated balance sheets until earned over the term of the respective recreational lease and recognized as other revenue.

In addition to the sources of revenue noted above, we also may enter into lump-sum sale contracts, whereby the purchaser generally pays the purchase price upon execution of the contract. Title to the timber and risk of loss transfers to the buyer at the time the contract is consummated. Revenues are recognized upon receipt of the purchase price. When the contract expires, ownership of the remaining standing timber reverts to us; however, adjustments are not made to the revenues previously recognized. Any extensions of time will be negotiated under a new or amended contract.

Related-Party Transactions and Agreements

Prior to becoming a self-managed company, we were externally managed by Wells TIMO, which was a wholly owned subsidiary of Wells REF. On September 18, 2013, we entered into the Master Agreement with Wells, which set forth the framework for our separation from Wells and our transition to self-management.

Pursuant to the Master Agreement, we entered into the TSA with Wells on October 25, 2013, pursuant to which Wells provided us with certain consulting, support, and transitional services in order to facilitate our successful transition to self-management. In exchange for the services provided by Wells under the TSA, we paid Wells a monthly consulting fee of $22,875. The TSA remained in effect until June 30, 2014.

Also pursuant to the Master Agreement, we entered into a Sublease Agreement with Wells on October 25, 2013, pursuant to which we sublet a portion of the office space used and occupied by Wells. The term of the Sublease commenced on October 25, 2013 and terminated on March 31, 2014.

On January 31, 2014, we entered into an agreement with Wells related to transfer agency services fees, pursuant to which Wells would pay transfer agency fees directly to DST System, Inc. (“DST”), our former transfer agent, from December 2013 to February 2014, when we discontinued use of DST for our transfer agency services.

All related person transactions must be approved or ratified by a majority of the disinterested directors on our board of directors. For more information about our relationship with Wells and its affiliates, see Item 13. Certain Relationships and Related Transaction, And Director Independence in our Annual Report on Form 10-K for the year ended December 31, 2014.

Regulatory Matters

In February 2013, we received a formal subpoena for documents and information from the SEC in connection with the SEC non-public, formal, fact finding investigation regarding WIS, a Wells affiliate and former dealer-manager of our two completed non-listed public offerings, and us. The investigation relates to whether there have been violations of certain provisions of the federal securities laws regarding valuation, potential distributions, marketing, and suitability. We have fully cooperated with the SEC and completed our production of documents and information in response to the subpoena in April 2014.

We have not been accused of any wrongdoing by the SEC. We also have been informed by the SEC that the existence of this investigation does not mean that the SEC has concluded that anyone has violated any laws or regulations or that the SEC has a negative opinion of any person, entity or security. We cannot reasonably estimate the timing of the conclusion of the investigation, nor can we predict whether or not the SEC will take any action against us as a result of the investigation and, if they do, what the ultimate outcome will be.

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 6 –Commitments and Contingencies to our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

- Mahrt Timber Agreements;
- FRC Timberland Operating Agreements;
- Obligations under Operating Leases; and
- Litigation.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a result of entering into our credit agreements, we are exposed to interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we have entered into interest rate swap agreements from time to time, and may enter into other interest rate swaps, caps or other arrangements in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes; however, certain of our derivatives may not qualify for hedge accounting treatment. All of our debt was entered into for other than trading purposes. We manage our ratio of fixed-to-floating-rate debt with the objective of achieving a mix that we believe is appropriate in light of anticipated changes in interest rates. We closely monitor interest rates and will continue to consider the sources and terms of our borrowing facilities to determine whether we have appropriately guarded ourselves against the risk of increasing interest rates in future periods.

As of June 30, 2015, we had $138.0 million outstanding on the 2014 Amended Credit Facilities, of which $100.0 million under the 2014 Term Loan Facility matures on December 23, 2024 and $38.0 million under the 2014 Multi-Draw Term Facility matures on December 23, 2021. The loans bear interest at a LIBOR Rate plus a margin ranging from 1.75% to 2.75% based upon the then-current LTV Ratio.

Under the 2014 Rabobank Swap, we pay interest at a fixed rate of 2.395% per annum and receive variable LIBOR-based interest payments from Rabobank between December 23, 2014 and December 23, 2024. As of June 30, 2015, the weighted-average interest rate of the 2014 Amended Credit Facilities, after consideration of the 2014 Rabobank Swap, was 2.50%.

Approximately $35.0 million of our total debt outstanding as of June 30, 2015 is subject to an effectively fixed-interest rate when coupled with 2014 Rabobank Swap. As of June 30, 2015, this balance incurred interest expense at an average rate of 4.145%. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio; however, it has no impact on interest incurred or cash flows.

As of June 30, 2015, after consideration of the 2014 Rabobank Swap, approximately $103.0 million of our total debt outstanding is subject to an effectively variable-interest rate. This balance incurred interest expense at an average rate of 1.94% as of June 30, 2015. A 1.0% change in interest rates would result in a change in interest expense of approximately $1.0 million per year. The amount of effectively variable-rate debt outstanding in the future will be largely dependent upon the level of cash from operations and the rate at which we are able to employ such proceeds toward repayment of the 2014 Amended Credit Facilities and acquisition of timberland properties.

ITEM 4. CONTROLS AND PROCEDURES

31

Table of Contents

Management's Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

Management, with the participation of the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods in SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2015 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 are party to legal proceedings, which arise in the ordinary course of our business. We are not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition. Nor are we aware of any such legal proceedings contemplated by governmental authorities.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.
(b) Not applicable.
(c) Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) There have been no defaults with respect to any of our indebtedness.
(b) Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) During the second quarter of 2015, there was no information that was required to be disclosed in a report on Form 8-K that was not disclosed in a report on Form 8-K.

Submission of Matters to a Vote of Security Holders

On July 30, 2015, we held our annual meeting of stockholders for the purpose of:

(1) Considering and voting upon a proposal to elect the seven directors named below to hold office for one-year terms expiring in 2016 and until their respective successors are duly elected and qualify;

(2) Considering and voting upon a proposal to approve, on an advisory basis, the compensation of our named executive officers;

(3) Ratifying the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015; and

(4)

Transacting any other business that may properly come before the meeting or any adjournment or postponement thereof.

Table of Contents

Proposal No. 1

Election of Directors

Name	Votes For	Votes Withheld	Broker Non-Votes
Willis J. Potts	22,769,136	238,553	11,256,868
Alan D. Gold	22,601,573	406,115	11,256,868
Donald S. Moss	22,805,765	201,924	11,256,868
Douglas D. Rubenstein	22,794,841	212,848	11,256,868
Henry G. Zigtema	22,531,325	476,363	11,256,868
Jerry Barag	22,823,204	184,485	11,256,868
John F. Rasor	22,814,338	193,351	11,256,868

Proposal No. 2

Name	Votes For	Votes Withheld	Abstentions	Broker Non-Votes
Proposal to approve, on an advisory basis, the compensation of the Company’s named executive officers	22,549,096	330,292	128,301	11,256,868

Proposal No. 3

Name	Votes For	Votes Withheld	Abstentions
Ratification of the appointment of Deloitte as the independent registered public accounting firm for the fiscal year ending December 31, 2015	33,887,050	281,306	96,201

(b) There are no material changes to the procedures by which stockholders may recommend nominees to our board of directors since the filing of our Schedule 14A.

ITEM 6. EXHIBITS

The exhibits required to be filed with this report are set forth on the Exhibit Index hereto and incorporated by reference herein.

34

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.

		CATCHMARK TIMBER TRUST, INC. (Registrant)
Date: August 3, 2015	By:	/s/ Brian M. Davis Brian M. Davis Senior Vice President and Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX TO SECOND QUARTER 2015 FORM 10-Q
CATCHMARK TIMBER TRUST, INC.

Exhibit Number	Description
3.1	Sixth Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed on August 9, 2013)
3.2	First Articles of Amendment to the Sixth Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-11 (File No. 333-191322) filed on September 23, 2013)
3.3	Articles of Amendment (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 25, 2013 (the “October 25 Form 8-K”))
3.4	Articles of Amendment (incorporated by reference to Exhibit 3.2 to the October 25 Form 8-K)
3.5	Articles Supplementary (incorporated by reference to Exhibit 3.3 to the October 25 Form 8-K)
3.6	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.6 to Registration Statement on Form S-8 (File No. 333-191916) filed on October 25, 2013)
31.1*	Certification of the Principal Executive Officer of the Company, pursuant to Securities Exchange Act Rule 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer of the Company, pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Statement of the Principal Executive Officer and Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

- - - - (9,663) (9,663) - Balances, December 31, 2016 - - 9,736

(*)

(**)1,788,884 18 14,713 (13,035) 1,696 500 Issuance of common stock - - - - 299,815 3 12,699 - 12,702 - Share-based compensation - - - - 8,085 (*) 479 - 479 - Exercise of options - - - - 31,787 (*) (*) - - - Cashless exercise of warrants - - - - 24 (*) - - (*) - 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) (*) 605,705 6 (6) - - - Net loss - - - - - - - - (7,589) (7,589) - Balances, December 31, 2017 - - 4,001 $

(*)

**2,734,300 $27 $30,561 $(20,624) $9,964 $500

(*) Less than 1

* Share data for periods prior to the reverse recapitalization represents the legal equity structure of Microbot 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 721,107 common stock classified as temporary equity.

(***) December 31 2017, 2016 and 2015 share data represent the number of shares adjusted to retroactively reflect the 1:15 reverse Stock Split effected on September 4, 2018, as discussed in Note 1.

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

F-5

MICROBOT MEDICAL INC.

Consolidated Statements of Cash Flows

U.S. dollars in thousands

(Except share data)

	Years ended December 31,	
	2017	2016
	(in thousands)	
OPERATING ACTIVITIES		
Net loss	$(7,589)	$(9,663)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	21	10
Interest and amortization of discount on convertible notes	237	333
Share-based transaction costs incurred in reverse recapitalization	-	7,258
Financing loss on debt extinguishment	2,364	-
Changes in fair value of derivative warrant liability	(285)	(262)
Share-based compensation expense	479	676
Changes in assets and liabilities:		
Other receivables	(14)	538
Other payables and accrued liabilities	(69)	324
Net cash used in operating activities	(4,856)	(786)
INVESTMENT ACTIVITIES		
Increase in restricted cash	(27)	-
Purchase of property and equipment	(58)	(25)
Net cash used in investing activities	(85)	(25)
FINANCING ACTIVITIES		
Acquisition of a subsidiary in connection with reverse recapitalization	-	269
Transaction costs incurred in reverse recapitalization	-	(347)
Inflows in connection with current assets and liabilities acquired in reverse recapitalization, net	317	2,002
Exercise of warrants issued upon conversion of notes	-	409
Issuance of common stock, net of issuance costs	12,702	-
Issuance of convertible notes	-	750

Net cash provided by financing activities	13,019	3,083
Increase in cash and cash equivalents	8,078	2,272
Cash and cash equivalents at the beginning of the year	2,709	437
Cash and cash equivalents at the end of the year	$10,787	$2,709
Supplemental disclosure of cash flow information:		
Non-cash financing transactions:		
Cashless exercise of warrants	$(*)	$-
Conversion of preferred A shares into common shares	$90	$-
Extinguishment of convertible notes in exchange for preferred A shares	$2,083	$-

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

MICROBOT MEDICAL INC.

Consolidated Statements of Cash Flows

U.S. dollars in thousands

(Except share data)

Assets acquired (liabilities assumed):	As of November 28, 2016 (in thousands)
Current assets excluding cash and cash equivalents	$ (3,618)
Current liabilities	811
Derivative warrant liability	575
Convertible note	2,029
Reverse recapitalization effect on equity	472
Cash acquired in connection with reverse recapitalization	$ 269

The accompanying notes are an integral part of these 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.

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 0.2 shares (2.9 shares before the Reverse Split described below) of the Company’s common stock, par value $0.01 per share, after giving effect to a one for nine reverse stock splits of the date of the merger, for an aggregate of 1,788,884 shares (26,550,974 shares before the Reverse Split) 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 176,181 shares (2,614,916 shares before the Reverse Split) of the Company’s common stock. Additionally, the Company issued an aggregate of 525,706 restricted shares (7,802,639 restricted shares before the Reverse Split) 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 conducts research, development, and commercialization of stem cell therapeutics and related technologies. Substantially the sale of 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.

B. Risk Factors:

To date, the Company has not generated revenues from its operations. As of the date of issuance of these financial statements, the Company has cash and cash equivalent balance of $9.5 million, 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. 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.

D. Reverse Stock Split

On September 4, 2018, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to affect a one-for-15 reverse stock split of the Company's common stock (the "Reverse Split"). As a result of the Reverse Split, every 15 shares of the Company's old common stock will be converted into one share of the Company's new common stock. Fractional shares resulting from the Reverse Split will be rounded up to the nearest whole number. The Reverse Split automatically and proportionately adjusted, based on the one-for-fifteen split ratio, all issued and outstanding shares of the Company's common stock, as well as common stock underlying convertible preferred stock, stock options, warrants and other derivative securities outstanding at the time of the effectiveness of the reverse stock split. The exercise price on outstanding equity based-grants was proportionately increased, while the number of shares available under the Company's equity-based plans was also proportionately reduced. Share and per share data (except par value) for the periods presented reflect the effects of this Reverse Split. References to numbers of shares of common stock and per share data in the accompanying financial statements and notes thereto have been adjusted to reflect the Reverse Split on a retroactive basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of presentation:

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

B. Financial statement in U.S. dollars:

The functional currency of the Company is the U.S. dollar ("dollar") since the dollar is the currency of the primary economic environment in which the Company has operated and expects to continue to operate in the foreseeable future.

Transactions and balances denominated in dollars are presented at their original amounts. Transactions and balances denominated in foreign currencies have been re-measured to dollars in accordance with the provisions of ASC 830-10, "Foreign Currency Translation".

All transaction gains and losses from re-measurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as financial income or expenses, as appropriate.

C. Cash and cash equivalents:

Cash and cash equivalents consist of cash and demand deposits in banks, and other short-term liquid investments (primarily interest-bearing time deposits) with original maturities of less than three months.

D. Fair value of financial instruments:

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

The Company measures the fair value of certain of its financial instruments (such as the derivative warrant liabilities) on a recurring basis. The method of determining the fair value of derivative warrant liabilities is discussed in Note 8.

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.

E. Fixed assets:

Fixed assets are presented at costs less accumulated depreciation. Depreciation is calculated based on the straight-line method over the estimated useful lives of the assets, as the following annual rates:

	%
Research equipment and software	25-33
Furniture and office equipment	7

F. Liabilities due to termination of employment agreements

Under Israeli employment laws, employees of Microbot Israel are included under Article 14 of the Severance Compensation Act, 1963 (“Article 14”). According to Article 14, these employees are entitled to monthly deposits made by Microbot Israel on their behalf with insurance companies.

Payments in accordance with Article 14 release Microbot Israel from any future severance payments (under the Israeli Severance Compensation Act, 1963) with respect of those employees. The aforementioned deposits are not recorded as an asset in the Company’s balance sheet,

G. Basic and diluted net loss per share

Basic net loss per share is computed by dividing net loss, as adjusted to include s by the weighted average number of common shares outstanding during the year. Common shares and preferred shares contingently issuable for little or no cash are included in basic net loss per share on an as issued basis.

Diluted net loss per share is computed by dividing net loss, as adjusted to include preferred shares dividend participation rights of preferred shares outstanding during the year as well as of preferred shares that would have been outstanding if all potentially dilutive preferred shares had been issued, by the weighted average number of common shares outstanding during the year, plus the number of common shares that would have been outstanding if all potentially dilutive common shares had been issued, using the treasury stock method, in accordance with ASC 260-10 “Earnings per Share”.

All outstanding stock options and warrants have been excluded from the calculation of the diluted loss per share for the years ended December 31, 2017 and December 31, 2016, since all such securities have an anti-dilutive effect.

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

H. Research and development expenses, net:

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.

I. Convertible Notes:

Proceeds from the sale of debt securities with a conversion feature are allocated to equity based on the intrinsic value of such conversion feature in accordance with ASC 470-20 “Debt with Conversion and Other Options”, with a corresponding discount on the debt instrument recorded in liabilities which is amortized in finance expense over the term of the notes.

Convertible notes with characteristics of both liabilities and equity are classified as either debt or equity based on the characteristics of its monetary value, with convertible notes classified as debt being measured at fair value, in accordance with ASC 480-10, “Accounting for Certain Financial instruments with Characteristics of both Liabilities and Equity”.

J. Share-based compensation:

The Company applies ASC 718-10, "Share-Based Payment," which requires the measurement and recognition of compensation expenses for all share-based payment awards made to employees and directors including stock options under the Company's stock plans based on estimated fair values.

ASC 718-10 requires companies to estimate the fair value of stock options using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's statement of operations.

The Company accounts for stock-based compensation awards to non-employees in accordance with FASB ASC 505-50, "Equity-Based Payments to Non-Employees" ("FASB ASC 505-50"). Under FASB ASC 505-50, the Company determines the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

The Company estimates the fair value of stock options granted as share-based payment awards using a Black-Scholes options pricing model. The option-pricing model requires a number of assumptions, of which the most significant are expected volatility and the expected option term (the time from the grant date until the options are exercised or expire). Expected volatility is estimated based on volatility of similar companies in the technology sector for equity awards granted prior to the Merger and on the Company's trading share price for equity awards granted subsequent to the Merger. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from governmental zero-coupon bonds with an equivalent term. The expected stock option term is calculated for stock options granted to employees and directors using the "simplified" method. Grants to non-employees are based on the contractual term. Changes in the determination of each of the inputs can affect the fair value of the stock options granted and the results of operations of the Company.

K. Reclassification:

Certain prior year amounts have been reclassified to conform to the current year presentation.

L. Transaction Costs

Transaction costs incurred in the Merger were charged directly to equity to the extent of cash and net other current assets acquired. Transaction costs in excess of cash acquired were charged to general and administrative expenses.

M. Income Taxes

The Company provides for income taxes using the asset and liability approach. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect when these differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of December 31, 2017, and 2016, the Company had a full valuation allowance against deferred tax assets.

N. 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 Company has not yet generated revenues to date, and does not yet know the impact the standard may have 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 9) 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 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 8 which upon adoption of the new standard are expected to be classified as equity.

NOTE 3 - OTHER CURRENT ASSETS

	As of December 31,	
	2017	2016
	(in thousands)	
Deposit in escrow account (*)	$-	$400
Government institutions	35	15
Prepaid expenses and others	81	191
	$116	$606

(*) Purchase Agreement with BOCO

On November 11, 2016, the Company, together with two of its wholly-owned subsidiaries, Stem Cell Sciences Holdings Limited and StemCells California, Inc. (collectively, with the Company, the “Sellers”), entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with BOCO Silicon Valley, Inc., a California corporation and wholly-owned subsidiary of Bright Oceans Corporation (“BOCO US”).

Pursuant to the terms and subject to the conditions set forth in the Asset Purchase Agreement, the Sellers sold to BOCO US certain stem and progenitor cell lines that have been researched, studied or manufactured by the Company since 2007 (the “Cell Lines”) and certain other tangible and intangible assets, including intellectual property and books and records, related to the foregoing (together with the Cell Lines, the “Assets”) in exchange for $4 million in cash (the “Asset Consideration”).

Of the Asset Consideration, $300 was provided to the Company prior to November 11, 2016 in exchange for the Sellers' agreement not to solicit or reach any agreement with any third party pertaining to the sale of the Assets, and $400 will remain in a twelve-month escrow for the benefit of BOCO US to satisfy certain indemnification obligations of the Sellers which may arise and which, subject to any valid indemnification claims of BOCO US, will be released to the Company at the end of such 12-month period. In addition, sixteen former employees of the Company received, in the aggregate, $495 in accordance with their June 2016 agreements with the Company under which each accepted a more than 50% reduction in his or her severance award otherwise payable.

The Asset Purchase Agreement contains certain covenants prohibiting the Sellers from, during the four-year period immediately following the completion of the Asset Sale, (a) engaging in or having certain financial interests in a business that is engaged in the research, development or commercialization of the Cell Lines, or (b) soliciting for employment employees of BOCO US.

On November 29, 2016, the Sellers completed the sale of the Assets.

As of December 31, 2017, the Company received $320 from the escrow account and paid $80 to certain consultant relating to BOCO transaction.

The opening balance sheet as of the Merger date included a receivable balance with respect to sale of the Assets of $3.5 which fully collected as of December 31 2017.

NOTE 4 - FIXED ASSETS, NET

	As of December 31, 2017	2016
	(in thousands)	
Cost:		
Research equipment and software	$76	$54
Furniture and office equipment	92	56
	168	110
Accumulated Depreciation:		

Research equipment and software	42	29
Furniture and office equipment	36	28
	78	57
	$90	$53

NOTE 5 - ACCRUED LIABILITIES

	As of December 31,	
	2017	**2016**
	(in thousands)	
Employees	$64	$102
Government institution	56	24
Other current liabilities	330	145
	$450	$271

NOTE 6 - 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.

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 151,119 shares (2,242,939 shares before the Reverse Split) 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 bears 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 is 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 $9.60 ($0.64 before the Reverse Split), 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 contains 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.

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 10 – Securities Exchange Agreements with Alpha Capital.

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

	As of December 31, 2017	2016
	(in thousands)	
Convertible note	$-	$2,029
Unamortized discount	-	(1,963)
Accrued interest	-	10
	$-	$76

NOTE 7 - 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 $4.45 ($0.30 before the Reverse Split) 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 of $4.45 ($0.30 before the Reverse Split) per share. Subsequent to the reset of the exercise price, an aggregate of 35,831 (531,814 before the Reverse Split) (from an outstanding aggregate of 38,948 (578,081 before the Reverse Split)) 2011 Series A Warrants were exercised. For the exercise of these warrants, the Company issued 35,831 shares (531,814 shares before the Reverse Split) of its common stock prior to the Merger.

The remaining outstanding warrants and terms as of December 31, 2017 and 2016 is as follows:

Issuance date	**Outstanding as of December 31, 2016(*)**	**Outstanding as of December 31, 2017(*)**	**Exercise Price (*)**	**Exercisable as of December 31, 2017(*)**	**Exercisable Through**
Series A (2011)	4,327	-	$ 2,244	-	December 2016
Series A (2013)	3,895	3,895	$ 2,885	3,895	October 2018
Series A (2013)	183	183	$ 2,725	183	April 2023
Series A (2015)	683	683	$ 1,363	683	April 2020
Series A (2016)(a)	677	625	$ 40	625	March 2018
Series B (2016)(a)	2,770	2,770	$ 40	2,770	March 2022

(*) December 31 2017 and 2016 warrants data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

a) 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 our warrant liability at December 31, 2017 and December 31, 2016, was approximately $28 and $313, 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.

b) In March 2017, an institutional holder executed a cashless exercise of 51 warrants (768 before the Reverse Split) and 24 shares (359 shares before the Reverse Split) of Common Stock were issued in connection therewith.

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities as of December 31, 2017 and December 31, 2016 (in thousands)(**):

	Series A (2011)	**Series A (2013)**	**Series A (2013)**	**Series A (2015)**	Series A (2016)	Series B (2016)	Total
	(in thousands)						
Balances at December 31, 2016	$-	$ 12	$ 9	$ 22	$ 43	$ 227	$ 313
Exercised	-	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-	-
Changes in fair value	-	(12)	(9)	(22)	(43)	(199)	(285)
Balances at December 31, 2017	$-	$ -	$ -	$ -	$ (*)	$ 28	$ 28

(*) Less than 1

(**) Share data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

F-17

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

	As of December 31, 2017(*)		**As of December 31, 2016(*)**	
	Series A (2016)	Series B (2016)	Series A (2016)	Series B (2016)
Share price	$15.1	$ 15.1	$90.5	$ 90.5
Exercise price	$40	$ 40	$40	$ 40
Expected volatility	60 %	119 %	380 %	380 %
Risk-free interest	1.24%	1.89 %	0.85%	1.93 %
Dividend yield	—	—	—	—
Expected life of up to (years)	0.25	4.25	1.2	5.2

(*) December 31 2017 and 2016 options data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

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

	Derivative warrant liabilities (in thousands)
As of December 31, 2016	$ 313
Revaluation of warrants	(285)
Exercise warrants	(*)
As of December 31, 2017	$ 28

(*) Less than 1

	Derivative warrant liabilities (in thousands)
As of November 30, 2016	$ 575
Revaluation of warrants	(262)
Exercise warrants	(*)
As of December 31, 2016	$ 313

(*) 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 $27; a 5.0% increase in volatility would increase the value of the warrants to $29. 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 8 - COMMITMENTS AND CONTIGENCIES

Microbot Israel obtained from the Israeli Innovation Authority (“IIA”) grants for participation in research and development for the years 2013 through December 31, 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 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 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 a cars lease agreement, 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 will collaborate to determine the effectiveness of the Company’s self-cleaning shunt.

The study in WU 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.

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.

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.

See Note 16 – Subsequent Events, below.

NOTE 9 - 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 67 shares (1,000 shares before the Reverse Split) 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, of 52 warrants (768 before the Reverse Split) and 24 shares (359 shares before the Reverse Split) 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 December 31, 2017, the Company had 2,734,300 shares (40,583,127 shares before the Reverse Split) of Common Stock issued and outstanding, and 4,001 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 2,442,646 shares (36,254,240 shares before the Reverse Split) 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 655,962 shares (9,735,925 shares before the Reverse Split) 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 6 – 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 47,163 shares (700,000 shares before the Reverse Split) of Common Stock in a registered direct offering for $74 ($5.00 per share before the Reverse Split) 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 252,658 shares (3,750,000 shares before the Reverse Split) of Common Stock, at a purchase price per share of $40 ($2.70 per share before the Reverse Split). The gross proceeds to the Company was $10,125,000 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 26,906 (403,592 stock options before the Reverse Split) (77,846 stock options as retroactively adjusted to reflect the Merger and the Reverse Split) to its CEO, through MEDX Venture Group LLC. Each option was exercisable into an ordinary share, at an exercise price of $12 ($0.8 before the Reverse Split) ($4.2 as retroactively adjusted to reflect the Merger and the Reverse Split). The stock options were fully vested at the date of grant.

On May 2, 2016, Microbot Israel's board of directors approved a grant of 33,333 stock options (500,000 stock options before the Reverse Split) (96,482 as retroactively adjusted to reflect the Merger and the Reverse Split) 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 Ltd estimated the fair value of the options as equal to the Company's share price of $20.25 ($1.35 before the Reverse Split) ($7.05 as retroactively adjusted to reflect the Merger and the Reverse Split) 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 120,847 shares (1,812,712 shares before the Reverse Split) of Common Stock to Mr. Harel Gadot, the Company's Chairman of the Board, President and CEO, at an exercise price per share of $15.75 ($1.05 before the Reverse Split). 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 $156 included in general and administrative expenses for the period ended December 31, 2017.

On September 14, 2017, the board of directors approved a grant of stock options to purchase an aggregate of up to 72,508 shares (1,087,627 shares before the Reverse Split) 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 $19.35 ($1.29 before the Reverse Split). 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 $92 included in general and administrative expenses for the period ended December 31, 2017.

On December 6, 2017, the board of directors approved a grant of 12,698 stock options (190,475 stock options before the Reverse Split) to purchase an aggregate of up to 12,698 shares (190,475 shares before the Reverse Split) of Common Stock to certain of its directors, at an exercise price per share of $15.75 ($1.05 before the Reverse Split). 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 $4 included in general and administrative expenses for the period ended December 31, 2017.

On December 28, 2017, the board of directors approved a grant of 66,036 stock options (990,543 stock options before the Reverse Split) to purchase an aggregate of up to 66,036 shares (990,543 shares before the Reverse Split) of Common Stock to certain of its employees, at an exercise price per share of $15.3 ($1.02 before the Reverse Split). 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 $95 included in general and administrative expenses for the period ended December 31, 2017.

On November, 2017, certain employees and consultant exercised 31,453 options (471,794 options before the Reverse Split) to 31,453 ordinary shares (471,794 ordinary shares before the Reverse Split) 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 year ended December 31, 2017(**)		
	Number of stock options	Weighted average exercise price	Aggregate intrinsic value
Outstanding at beginning of period	174,328	$ 1.95	$ 3,739
Granted	272,090	16.5	-
Exercised	(31,453)	-	-
Cancelled	-	-	-
	414,965	$ 11.7	$ 1,859
Outstanding at end of period	142,875	$ 1.95	$ 1,375
Vested and expected-to-vest at end of period	174,328	$ 1.95	$ 3,739

	For the year ended December 31, 2016(**)		
	Number of stock options	Weighted average exercise price	Aggregate intrinsic value
Outstanding at beginning of period	77,846	$ 4.2	-
Granted	96,482	(*)	-
Exercised	-	-	-
Cancelled	-	-	-
Outstanding at end of period	174,328	$ 1.95	$ 15,624
Vested and expected-to-vest at end of period	174,328	$ 1.95	$ 15,624

(*) Less than 1

(**) December 31 2017 and 2016 options data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

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 December 31, 2017 and December 31, 2016 respectively, The stock options outstanding as of December 31, 2017 and December 31, 2016, separated by exercise prices, are as follows:

Exercise price	Stock options outstanding as of December 31, (**)		Weighted average remaining contractual life – years as of December 31, (**)		Stock options exercisable as of December 31, (**)	
$	2017	2016	2017	2016	2017	2016
4.2	77,846	77,846	8.0	8.0	77,846	77,846
15.75	133,546	-	9.75	-	-	-
19.35	72,508	-	9.75	-	-	-
15.3	66,036	-	10	-	-	-
(*)	65,029	96,482	8.75	9.5	65,029	96,482
	414,965	174,328	-	-	142,875	174,328

(*) Less than 1

(**) December 31 2017 and 2016 options data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

Compensation expense recorded by the Company in respect of its stock-based employee compensation awards in accordance with ASC 718-10 for the year ended December 31, 2017 and 2016 was $ 254 and $ 675, respectively.

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:

	Years ended December 31,	
	2017	2016

Expected volatility	122.5%	77.3%
Risk-free interest	1.64 %	0.6 %
Dividend yield	0 %	0 %
Expected life of up to (years)	6.25	5.0

Shares issued to service provider

In connection with the Merger, the Company issued an aggregate of 525,706 restricted shares (7,802,639 restricted shares before the Reverse Split) 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 $19.2 ($1.28 before the Reverse Split) 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 8, 085 nonrefundable shares (120,000 nonrefundable shares before the Reverse Split) 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 655,967 shares (9,736,000 shares before the Reverse Split) 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 655,967 shares (9,735,925 shares before the Reverse Split) 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 1,786,684 (26,518,315 before the Reverse Split).

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 605,705 shares (8,990,000 shares before the Reverse Split) 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, 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 10 - 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):

	Year Ended December 31,	
	2017(*)	2016(*)
Net loss attributable to shareholders of the Company	$7,589	$9,663
Net loss attributable to shareholders of preferred shares	1,582	3,954
Net loss used in the calculation of basic net loss per share	$6,007	$5,709
Net loss per share	$(2.67)	$(5.94)
Weighted average number of common shares	2,201,992	963,047

(*) December 31 2017 and 2016 shares data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

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.

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

NOTE 11 - RESEARCH AND DEVELOPMENT EXPENSES, NET

	Years ended December 31, 2017	2016
Payroll and related expenses	$634	$491
Share-based compensation	1	-
Materials	266	155
Patents	66	75
Office and maintenance expenses	27	21
Rent	34	36
Professional services	174	253
Depreciation	12	7
Other	65	76
Less: Grants received from IIA	(179)	(213)
	$1,100	$901

NOTE 12 - GENERAL AND ADMINISTRATIVE EXPENSES

	Years ended December 31, 2017	2016
Payroll and related expenses	$1,213	$45
Share-based compensation	253	676
Professional services	1,217	528
Common shares issued for services	-	7,258
Travel	284	180
Marketing expenses	26	-

Office and maintenance expenses	121	-
Depreciation	9	-
Public and Investor Relations	515	-
Insurance	226	-
Governmental Fees	251	
Other	52	47
	$4,167	$8,734

NOTE 13 - FINANCE EXPENSES, NET

	Years ended December 31, 2017	2016
	(in thousands)	
Bank fees and interest	$1	$1
Change in fair value of derivative warrant liability	(285)	(262)
Financing loss on debt extinguishment	2,364	-
Exchange rate differences	5	(44)
Revaluation and interest on convertible loans	237	333
	$2,322	$28

NOTE 14 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES

A. Transactions:

	Year ended December 31, 2017	2016
	(in thousands)	
Payroll and related expenses	$851	$-
Directors fees and insurance	463	58
Subcontracted work and consulting	67	253
	$1,381	$311

B. Balances:

	As of December 31, 2017	2016
Other accounts payable	$ 46	-
	$ 46	-

NOTE 15 - 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 25% in the year 2016, 24% in 2017 and 23% from 2018. The Company is subject to a blended U.S. tax rate (Federal as well as state corporate tax) of 35%.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law in the United States. The Tax Act, among other provisions, introduces changes in the U.S corporate tax rate, business related exclusions and deductions and credits, and has internationally tax consequences for companies that operate international. Most of the changes introduced in the Tax Act are effective beginning on January 1, 2018. The Tax Act introduces a reduced federal tax rate of 21% from January 1, 2018 and onward.

A. As of December 31, 2017, the Company generated net operating losses in Israel of approximately $5,267 which may be carried forward and offset against taxable income in the future for an indefinite period.

As of December 31, 2017, the Company generated net operating losses in the U.S. of approximately $2,987. 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.

B. 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 December 31,	
	2017	2016
Net operating loss carry-forward	$488,603	$481,052
Total deferred tax assets	117,265	120,263
Valuation allowance	(117,265)	(120,263)
Net deferred tax assets	$-	$-

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 December 31,	
	2017	2016
	(in thousands)	
Net loss as reported in the statements of operations	$7,589	$9,663
Statutory tax rate	24 %	25 %
Income Tax under statutory tax rate	1,821	2,416
Change in valuation allowance	(1,821)	(2,416)
Actual income tax	$-	$-

NOTE 16 - SUBSEQUENT EVENTS

On January 4, 2018, Microbot Medical Ltd. entered into an agreement with CardioSert Ltd. to acquire certain patent-protected technology owned by CardioSert. With the closing of the acquisition in April 2018, CardioSert's issued U.S. patent and three patent applications pending worldwide were added to Microbot's patent portfolio and Microbot now has a patent portfolio of 29 issued/allowed patents and 19 patent applications pending worldwide.

Pursuant to the Agreement, Microbot Medical Ltd made an initial payment of $50 to CardioSert and has 90-days to complete the acquisition. At the end of the 90-day period, at Microbot's sole option, CardioSert shall assign and transfer the Technology to Microbot Medical Ltd and Microbot Medical Ltd shall pay to CardioSert additional amounts and options as determined in the agreements.

The Agreement may be terminated by Microbot at any time during the 90-day pre-closing period, and otherwise 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 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, CardioSert shall have the right to buy back the Technology from Microbot 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 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.

Share Capital Developments

In 2018, through March 30, 2018, the Company issued an aggregate of 101,063 shares (1,500,000 shares before the Reverse Split) of its Common Stock upon the conversion of an aggregate of 1,500 shares of its Series A Convertible Preferred Stock.

Tolling Agreement

On April 2, 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.

MICROBOT MEDICAL INC.

Interim Consolidated Balance Sheets

U.S. dollars in thousands

(Except share data)

	Note	As of September 30, 2018 (Unaudited)	As of December 31, 2017 (Audited)
ASSETS			
Current assets:			
Cash and cash equivalents		$ 6,673	$ 10,787
Restricted cash		27	27
Other current assets		148	116
		6,848	10,930
Fixed assets, net		280	90
Total assets		$ 7,128	$ 11,020
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables		$ 194	$ 78
Accrued liabilities		363	450
Total current liabilities		557	528
Derivative warrant liability	3	5	28
Total liabilities		562	556
Commitments and contingencies	4		
Temporary equity:	5		
Common stock of $0.01 par value; issued and outstanding: 721,107 shares as of September 30, 2018 and December 31, 2017		500	500
Shareholders' equity:			
Preferred stock of $0.01 par value; Authorized: 1,000,000 shares as of September 30, 2018 and December 31, 2017; issued and outstanding: 550 and 4,001 shares as of September 30, 2018 and December 31, 2017, respectively	5	(*)	(*)
Common stock of $0.01 par value; Authorized: 220,000,000 as of September 30, 2018 and December 31, 2017; issued and outstanding (**): 2,254,569 and 2,013,193 shares as of September 30, 2018, and December 31, 2017, respectively		30	27
Additional paid-in capital		31,771	30,561

Accumulated deficit	(25,735)	(20,624)
	6,066	9,964
	$ 7,128	$ 11,020

(*) Less than 1

(**) December 31, 2017 share data represents the number of shares adjusted to retroactively reflect the 1:15 reverse stock split effected on September 4, 2018.

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

F-29

MICROBOT MEDICAL INC.

Interim Consolidated Statements of Comprehensive Loss

U.S. dollars in thousands

(Except share data)

	Note	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Research and development expenses, net		$623	$339	$1,753	$900
General and administrative expenses		1,130	896	3,407	2,830
Operating loss		(1,753)	(1,235)	(5,160)	(3,730)
Financing income (expenses), net		4	48	49	(2,272)
Net loss		$(1,749)	$(1,187)	$(5,111)	$(6,002)
Net loss per share, basic and diluted(*)	6	$(0.58)	$(0.45)	$(1.69)	$(2.25)
Weighted-average number of common shares outstanding, basic and diluted (*)		2,947,633	2,383,327	2,876,020	2,061,331

(*) September 30, 2017 share data represents the number of shares adjusted to retroactively reflect the 1:15 reverse stock split effected on September 4, 2018.

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

F-30

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	$ **(*)**	**1,788,884	$ 18	$ 14,713	$ (13,035)	$ 1,696	$ 500
Issuance of Common Stock	-	-	299,815	3	12,699	-	12,702	-
Share-based compensation	-	-	8,085	(*)	479	-	479	-
Exercise of options	-	-	31,787	(*)	(*)	-	(*)	-
Cashless exercise of warrants	-	-	24	(*)	-	-	(*)	-
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)	(*)	605,705	6	(6)	-	-	-
Net loss	-	-	-	-	-	(7,589)	(7,589)	-
Balances, December 31, 2017	4,001	$ **(*)**	**2,734,300	$ 27	$ 30,561	$ (20,624)	$ 9,964	$ 500
Share-based compensation	-	-		-	1,139	-	1,139	-
Shares issued as consideration-vendor			6,738	1	73	-	74	-
Exercise of options	-	-	2,487	(*)	-	-	-	-
Conversion of preferred A shares to common stock	(3,451)	(*)	232,151	2	(2)	-	-	-
Net loss	-	-	-	-	-	(5,111)	(5,111)	-
Balances, September 30, 2018	550	$ **(*)**	**2,975,676	$ 30	$ 31,771	$ (25,735)	$ 6,066	$ 500

(*) Less than 1

(**) Includes 721,107 common stock classified as temporary equity.

(***) December 31, 2017 and 2016 share data represents the number of shares adjusted to retroactively reflect the 1:15 reverse stock split effected on September 4, 2018.

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)

	Nine months ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net loss	$(5,111)	$(6,002)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	49	15
Interest and revaluation of convertible notes, net	-	237
Financing loss on debt extinguishment	-	2,364
Changes in fair value of derivative warrant liability	(23)	(274)
Shares issued as consideration-vendor	74	-
Share-based compensation expense	1,139	176
Changes in assets and liabilities:		
Other receivables	(32)	29
Other payables and accrued liabilities	29	(92)
Net cash used in operating activities	(3,875)	(3,547)
INVESTMENT ACTIVITIES		
Increase in restricted cash	-	-
Purchase of property and equipment	(239)	(28)
Net cash used in investing activities	(239)	(28)
FINANCING ACTIVITIES		
Outflow (inflow) in connection with current assets and liabilities acquired in reverse recapitalization, net	-	(82)
Issuance of common stock, net of issuance costs	-	12,704
Net cash provided by financing activities	-	12,622
Net increase (decrease) in cash and cash equivalents and restricted cash	(4,114)	9,047

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	$6,700	$11,756
<u>Supplemental disclosure of cash flow information:</u>		
<u>Non-cash financing transactions:</u>		
Cashless exercise of warrants	$-	$(*)
Conversion of preferred A shares into common shares	$(*)	$(*)
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 consolidated financial statements.

F-32

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”). 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”.

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.

B. Risk Factors

To date, the Company has not generated revenues from its operations. As of September 30, 2018, the Company had cash and cash equivalent balance of approximately $6,673, 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.

D. Reverse Stock Split

On September 4, 2018, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to affect a one-for-15 reverse stock split of the Company's common stock (the "Reverse Split"). As a result of the Reverse Split, every 15 shares of the Company's old common stock was converted into one share of the Company's new common stock. Fractional shares resulting from the Reverse Split were rounded up to the nearest whole number. The Reverse Split automatically and proportionately adjusted, based on the one-for-fifteen split ratio, all issued and outstanding shares of the Company's common stock, as well as common stock underlying convertible preferred stock, stock options, warrants and other derivative securities outstanding at the time of the effectiveness of the Reverse Split. The exercise price on outstanding equity based-grants was proportionately increased, while the number of shares available under the Company's equity-based plans was also proportionately reduced. Share and per share data (except par value) for the periods presented reflect the effects of the Reverse Split. References to numbers of shares of common stock and per share data in the accompanying financial statements and notes thereto for periods ended prior to September 4, 2018 have been adjusted to reflect the Reverse Split on a retroactive basis.

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 nine-month period ended September 30, 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.

In June 2018, the FASB issued ASU No. 2018-07 “Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” These amendments expand the scope of Topic 718, Compensation - Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. The guidance is effective for the Company during the first quarter of 2019. The Company is assessing ASU 2018-07 and does not expect it 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.

In July 2018, the FASB issued ASU No. 2018-11, “Targeted Improvements - Leases (Topic 842).” This update provides an optional transition method that allows entities to elect to apply the standard prospectively at its effective date, versus recasting the prior periods presented. If elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. 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 4) 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 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 - DERIVATIVE WARRANT LIABILITIES

The remaining outstanding warrants and terms as of September 30, 2018 and December 31, 2017 after the split is as follows: (*)

Issuance date	Outstanding as of December 31, 2017	Outstanding as of September 30, 2018	Exercise Price	Exercisable as of September 30, 2018	Exercisable Through
Series A (2013)	3,895	3,895	$ 2,885	3,895	October 2018
Series A (2013)	183	183	$ 2,725	183	April 2023
Series A (2015)	683	683	$ 1,363	683	April 2020
Series A (2016) (a)	625	-	$ -	-	March 2018
Series B (2016) (a)	2,770	2,770	$ 40	2,770	March 2022

(*) December 31, 2017 warrants data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018

a) 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 our warrant liability at September 30, 2018 and December 31, 2017, was approximately $5 and $28, respectively.

F-35

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 3 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 51 warrants and 24 shares of Common Stock were issued in connection therewith.

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities as of September 30, 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	-	-	-	-	-	-	-
expiration	-	-	-	-	(*)	-	(*)
Changes in fair value	-	-	-	-	-	(23)	(23)
Balances at September 30, 2018	$ -	$ -	$ -	$ -	$ -	$ 5	$ 5

(*) Less than 1

The following table summarizes the observable inputs used in the valuation of the derivative warrant liabilities as of September 30, 2018 and December 31, 2017:

	As of September 30, 2018	As of December 31, 2017

	Series A (2016)	Series B (2016)	Series A (2016)	Series B (2016)
Share price	—	$7.52	$15.1	$15.1
Exercise price	—	$40.07	$40.07	$40.07
Expected volatility	—	84.9%	60%	119%
Risk-free interest	—	2.39%	1.24%	1.89%
Dividend yield	—	—	—	—
Expected life of up to (years)	—	3.50	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	(23)
As of September 30, 2018	$ 5

	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 or ‘increase in volatility would not have materially changed 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 4 - COMMITMENTS AND CONTINGENCIES

Microbot Israel obtained from the Israeli Innovation Authority (“IIA”) grants for participation in research and development for the years 2013 through September 30, 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 January 2018, the Company entered into an office lease agreement in the U.S., with a term ending on December 31, 2021. According to the lease agreement, the monthly office lease payment is approximately $4.

In May 2017, the Company entered into an office lease agreement IN Israel 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.

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. On August 3, 2018, both Plaintiffs and the Company filed motions for summary judgment. On September 27, 2018, the Court heard oral argument on the parties' respective summary judgment motions. After oral argument, the Court denied Plaintiffs' motion in its entirety from the bench. On September 28, 2018, the Court issued a decision granting the Company's motion for summary judgment regarding Plaintiffs' claim for monetary damages and denying the Company's motion for summary judgment on Plaintiffs' claim for rescission, finding that there were material questions of fact that would need to be resolved at trial. A trial date has not been set.

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.

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 and therefore made an additional cash payment of $250 and 6,738 (100,000 common shares before the Reverse Split) common shares estimated of $74. (see note 5).

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 if 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 NIS 40,000 covering up to 60 consulting hours per month.

Agreement with Simon Sharon

Effective as of April 1, 2018, the Company hired Simon Sharon to replace its former Vice President of R&D. Pursuant to the terms thereof, among other things, Mr. Sharon is entitled to options to purchase 10,000 shares (150,000 shares before the Reverse Split) of the Company's common stock, subject and pursuant to the Company's 2017 Equity Incentive Plan.

NOTE 5 - 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 67 shares of Common Stock (1,000 shares of Common Stock before the Reverse Split), 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, 52 warrants (768 warrants before the Reverse Split) and 24 shares (359 shares before the Reverse Split) 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 2,837,863 shares (42,120,127 shares before the Reverse Split) of Common Stock issued and outstanding, and 2,464 shares of Series A Convertible Preferred Stock issued and outstanding.

On December 27, 2016, the Company exchanged 655,962 shares (9,735,925 shares before the Reverse Split) 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 47,163 shares (700,000 shares before the Reverse Split) of Common Stock in a registered direct offering for $74 per share ($5.00 per share before the Reverse Split) 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 252,658 shares (3,750,000 shares before the Reverse Split) of Common Stock, at a purchase price per share of $40 ($2.70 before the Reverse Split). 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 26,906 stock options (403,592 stock options before the Reverse Split) (77,846 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 $12 ($0.8 before the Reverse Split) ($4.2 as retroactively adjusted to reflect the Merger). The stock options were fully vested at the date of grant.

On May 2, 2016, Microbot Israel's board of directors approved a grant of 33,333 stock options (500,000 stock options before the Reverse Split) (96,482 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 $20.25 ($1.35 before the Reverse Split) ($7.05 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 120,848 shares (1,812,712 shares before the Reverse Split) of Common Stock to Mr. Harel Gadot, the Company's Chairman of the Board, President and CEO, at an exercise price per share of $15.75 ($1.05 before the Reverse Split). 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 $460 and $0 included in general and administrative expenses for the nine months ended September 30, 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 72,508 shares (1,087,627 shares before the Reverse Split) 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 $19.35 ($1.29 before the Reverse Split). 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 $329 and $0 included in general and administrative expenses for the nine months ended September 30, 2018 and 2017 respectively.

On December 6, 2017, the board of directors approved a grant of 12,698 stock options (190,475 stock options before the Reverse Split) to purchase an aggregate of up to 12,698 shares of Common Stock to certain of its directors, at an exercise price per share of $15.75 ($1.05 before the Reverse Split). 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 $55 and $0 included in general and administrative expenses for the nine months ended September 30, 2018 and 2017 respectively.

On December 28, 2017, the board of directors approved a grant of 66,036 stock options (990,543 stock options before the Reverse Split) to purchase an aggregate of up to 66,036 shares of Common Stock to certain of its employees, at an exercise price per share of $15.3 ($1.02 before the Reverse Split). 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 $273 and $0 included in general and administrative expenses and research and development expenses for the nine months ended September 30, 2018 and 2017 respectively.

On November 2017, certain employees and consultant exercised 31,453 options (471,794 options before the Reverse Split) to 31,453 ordinary shares at exercise price of 0.001 NIS.

In February 2018, an employee exercised options to purchase 2,487 shares (37,300 shares of common stock before the Reverse Split) at an exercise price of $0.001 per share

On August 13, 2018, the board of directors approved a grant of stock options to purchase an aggregate of up to 10,000 shares (150,000 shares before the Reverse Split) of Common Stock to Mr. Simon Sharon, the company's CTO, at an exercise price per share of $9 ($0.6 before the Reverse Split). 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 $22 and $0 included in general and administrative expenses for the nine months ended September 30, 2018 and 2017 respectively.

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

	For the nine months ended September 30, 2018		
	Number of stock options	Weighted average exercise price	Aggregate intrinsic value
Outstanding at beginning of period	414,965	$ 11.70	$ 1,859
Granted	10,000	9	-
Exercised	(2,487)	-	-
Cancelled	-	-	-
Outstanding at end of period	422,478	$ 11.70	$ 729
Vested and expected-to-vest at end of period	228,758	$ 7.80	$ 729

	For the year ended December 31, 2017(*)		
	Number of stock options	Weighted average exercise price	Aggregate intrinsic value
Outstanding at beginning of period	174,328	$ 1.95	$ 3,739
Granted	272,090	16.50	-

Exercised	(31,453)	-	-
Cancelled	-	-	-
Outstanding at end of period	414,965	$ 11.70	$ 1,859
Vested and expected-to-vest at end of period	142,875	$ 1.95	$ 1,375

(*) December 31, 2017 options data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

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, 2018 and December 31, 2017 respectively.

F-41

The stock options outstanding as of September 30, 2018 and December 31, 2017, separated by exercise prices, are as follows:

Exercise price $	Stock options outstanding as of September 30, 2018	Stock options outstanding as of December 31, 2017(**)	Weighted average remaining contractual life – years as of September 30, 2018	Weighted average remaining contractual life – years as of December 31, 2017(**)	Stock options exercisable as of September 30, 2018	Stock options exercisable as of December 31, 2017(**)
4.20	77,846	77,846	7.25	8.00	77,846	77,846
15.75	133,546	133,546	9.00	9.75	46,117	-
9.00	10,000	-	10.00	-	-	-
19.35	72,508	72,508	9.00	9.75	23,565	-
15.30	66,036	66,036	9.25	10.00	18,688	-
(*)	62,542	65,029	8.00	8.75	62,542	65,029
	422,478	414,965	8.55	9.3	228,758	142,875

(*) Less than $0.01.

(**) December 31, 2017 options data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

Compensation expense recorded by the Company in respect of its stock-based employee compensation awards in accordance with ASC 718-10 for the nine-month ended September 30, 2018 and 2017 was $ 1,139 and $196, respectively.

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 months ended September 30, 2018	Year ended December 31, 2017

Expected volatility	99.4%	122.5%
Risk-free interest	2.39%	1.64%
Dividend yield	0%	0%
Expected life of up to (years)	5.24	6.25

Shares issued to service provider

In connection with the Merger, the Company issued an aggregate of 525,706 restricted shares (7,802,639 restricted shares before the Reverse Split) 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 $19.2 ($1.28 before the Reverse Split) 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 8,085 nonrefundable shares (120,000 nonrefundable shares before the Reverse Split) 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

On May 24, 2018 the Company issued an aggregate of 6,738 nonrefundable shares (100,000 nonrefundable shares before the Reverse Split) of Common Stock to CardioSert as part of certain patent acquisition. The Company recorded expenses of approximately $74 with respect to the issuance of these shares included in research and development 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 655,967 shares (9,736,000 shares before the Reverse Split) 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 655,967 shares (9,735,925 shares before the Reverse Split) 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 1,786,684 (26,518,315 before the Reverse Split).

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 605,705 shares (8,990,000 shares before the Reverse Split) of Common Stock, pursuant to the terms of conversion of the Series A Convertible Preferred Stock.

For the nine-month ended September 30, 2018, the holder of the Series A Convertible Preferred Stock converted 3,451 shares of the Series A Convertible Preferred Stock for 232,151 shares (3,445,266 shares before the Reverse Split) 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.

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 6 - 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):

	Nine months ended September 30,	
	2018	2017(*)
Net loss attributable to shareholders of the Company	$(5,111)	$(6,002)
Net loss attributable to shareholders of preferred shares	(226)	(1,442)
Net loss used in the calculation of basic net loss per share	$(4,885)	$(4,560)
Net loss per share	$(1.69)	$(2.25)
Weighted average number of common shares	2,876,020	2,061,331

(*) September 30, 2017 shares data represents the number of shares adjusted to retroactively reflect the 1:15 Reverse Split effected on September 4, 2018.

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.

Up to 996,016 Shares of Common Stock

Up to 996,016 Pre-Funded Warrants to Purchase Shares of Common Stock and

996,016 Shares of Common Stock Underlying the Pre-Funded Warrants

PROSPECTUS

Sole Book-Running Manager

H.C. Wainwright & Co.

, 2019

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, paid or payable by Microbot Medical Inc. (the "Company" or the "Registrant") in connection with the sale of the securities being registered under this registration statement. All amounts shown are estimates except for the Securities and Exchange Commission, or SEC, registration fee and the FINRA filing fee.

	Amount
SEC registration fee	$1,393.80
FINRA filing fee	2,225.00
Legal fees and expenses	125,000
Accounting fees and expenses	25,000
Transfer agent and registrar fees and expenses	5,000
Miscellaneous expenses	131,381.20
Total	$290,000

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law ("DGCL") permits, in general, a Delaware corporation, to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation) by reason of the fact that or she is or was a director, or officer, of the corporation, or served another business enterprise in any capacity at the request of the corporation, against liability incurred in connection with such proceeding, including the expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such proceeding if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, in criminal actions or proceedings, additionally had no reasonable cause to believe that his or her conduct was unlawful. A Delaware corporation's power to indemnify applies to actions brought by or in the right of the corporation, but only to the extent of expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit, provided that no indemnification shall be provided in such actions in the event of any adjudication of negligence or misconduct in the performance of such person's duties to the corporation, unless a court believes that in light of all the circumstances indemnification should apply. Section 145 of the DGCL also permits, in general, a Delaware corporation to purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, or served another entity in any capacity at the request of the corporation, against liability incurred by such person in such capacity, whether or not the corporation would have the power to indemnify such person against such liability.

Section 102(b)(7) of the DGCL permits a corporation to include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director’s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit.

The Company’s restated certificate of incorporation provides that the Company’s directors shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director except to the extent that exculpation from liabilities is not permitted under the DGCL as in effect at the time such liability is determined. The Company’s restated certificate of incorporation further provides that the Company shall indemnify its directors and officers to the fullest extent permitted by the DGCL.

We maintain a directors’ and officers’ insurance policy pursuant to which our directors and officers are insured against liability for actions taken in their capacities as directors and officers. We believe that these indemnification provisions and insurance are necessary to attract and retain qualified directors and officers.

Indemnification Agreements

The Company has entered into indemnification agreements with each of its directors and executive officers. These indemnification agreements may require the Company, among other things, to indemnify its directors and officers for some expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or officer in any action or proceeding arising out of his or her service as one of the Company's directors or officers, or any of its subsidiaries or any other company or enterprise to which the person provides services at our request.

In any underwriting agreement we enter into in connection with the sale of common stock being registered hereby, the underwriter will agree to indemnify, under certain conditions, us, our directors, our officers and persons who control us within the meaning of the Securities Act of 1933, as amended, against certain liabilities.

Item 15. Recent Sales of Unregistered Securities.

Set forth below is information regarding securities issued and options granted by the Company within the past three years that were not registered under the Securities Act of 1933, as amended, and the rules promulgated thereunder (the "Securities Act"). Also included is the consideration, if any, received by the Registrant, for such securities and options and information relating to the Securities Act, or rule of the SEC, under which exemption from registration was claimed. Except with respect to issuances subsequent to September 4, 2018, the below descriptions of such issuances, including any conversion ratios, do not reflect the Company's September 4, 2018 1-for-15 reverse stock split.

In connection with a registered direct offering consummated on January 15, 2019, we issued warrants to the placement agent to purchase 22,767 shares of common stock at $8.125 per share. In connection with a registered direct offering consummated on January 17. 2019, we issued warrants to the placement agent to purchase 29,500 shares of common stock at $12.50 per share. In connection with a registered direct offering and concurrent private placement consummated on January 25, 2019, we issued (i) warrants to investors in the offering to purchase up to 250,000 shares of common stock at $10.00 per share and (ii) warrants to the placement agent to purchase 12,500 shares of common stock at $12.50 per share. The offer and issuance of the securities described in each of the foregoing registered direct offerings were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act (or Regulation D promulgated thereunder) as issuances of securities to accredited investors not involving a public offering. The recipients of the securities in each of these transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was either an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act or had adequate access, through business or other relationships with us to information about us.

On November 26, 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 550 shares of the Preferred Stock for an aggregate of 36,667 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 66.667 shares of the common stock of the Company. The issuances of the 36,667 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. All shares of Preferred Stock that had been issued have now been converted into shares of the Company's common stock. Accordingly, there are currently no shares of Preferred Stock issued or outstanding.

On September 24, 2018, the holder of the Series A Convertible Preferred Stock, par value $0.01 per share, of the Company, converted 450 shares of the Preferred Stock for 30,000 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 66.667 shares of the common stock of the Company. The issuances of the 30,000 shares of common stock were 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.

On May 31, 2018, the holder of the Preferred Stock converted 700 shares of the Preferred Stock for 700,000 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 Company. The issuances of the 700,000 shares of common stock were 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.

On May 24, 2018, the Company issued 100,000 shares of common stock to CardioSert Ltd. as partial consideration for the acquisition of certain intellectual property assets from CardioSert. The issuance was exempt from registration under Section 4(a)(2) under the Securities Act as a transaction not involving a public offering to a single stockholder as part of a negotiated transaction.

On March 7, 2018, the holder of the Preferred Stock 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 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.

On May 11, 2018, the holder of the Preferred Stock converted 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. 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.

From November 22, 2017 through January 25, 2018, the holder of the Preferred Stock converted an aggregate of 2,436 shares of the Preferred Stock for an aggregate of 2,436,000 shares of the Registrant'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 2,436,000 shares of common stock were 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.

On December 11, 2017, the Registrant issued an aggregate of 70,000 shares of the Registrant's common stock to a consultant as consideration for services. The issuance of the shares was exempt from registration under Section 4(a)(2) under the Securities Act as a transaction not involving a public offering, as the issuance thereof was made to a limited number of persons or entities as compensation for services rendered.

From October 4, 2017 through October 25, 2017, the holder of the Preferred Stock 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 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.

From August 7, 2017 through September 19, 2017, the holder of the Preferred Stock converted an aggregate of 2,200 shares of the Preferred Stock for an aggregate of 2,200,000 shares of the Registrant'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 2,200,000 shares of common stock were 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.

Between June 19, 2017 and August 7, 2017, the holder of the Preferred Stock converted an aggregate of 2,029 shares of the Preferred Stock for an aggregate of 2,029,000 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 Company. The issuances of the 2,029,000 shares of common stock were 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.

Between May 18, 2017 and June 12, 2017, the holder of the Preferred Stock converted an aggregate of 1,525 shares of the Preferred Stock for an aggregate of 1,525,000 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 Company. The issuances of the 1,525,000 shares of common stock were 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.

On May 26, 2017, the Company issued an aggregate of 50,000 shares of common stock to a consultant. The issuance of the shares was exempt from registration under Section 4(a)(2) under the Securities Act as a transaction not involving a public offering, as the issuance thereof was made to a limited number of persons or entities as compensation for services rendered.

On May 10, 2017, the Company entered into a Securities Exchange Agreement (the “Exchange Agreement”) with Alpha Capital Anstalt (“Alpha Capital”), pursuant to which the Company agreed to issue 3,255 shares of Series A Convertible Preferred Stock, par value $0.01 per share (the “Preferred Stock”), in exchange for the full satisfaction, termination and cancellation of that outstanding 6% convertible promissory note of the Company in the principal amount of $2,028,767, issued on November 28, 2016 and held by Alpha Capital (the “Convertible Note”). Effective as of May 10, 2017, the Company issued 3,255 shares of Preferred Stock to Alpha Capital pursuant to the Exchange Agreement. The issuance of the 3,255 shares of Preferred Stock was exempt from registration under Section 4(a)(2) and/or 3(a)(9) under the Securities Act.

In March 2017, an institutional holder exercised, in a cashless transaction, 768 warrants and 359 shares of common stock were issued in connection therewith. The issuance of the 359 share of common stock was exempt from registration under Section 4(a)(2) and/or 3(a)(9) under the Securities Act.

Effective as of December 27, 2016, the Company closed on the exchange (the “Exchange”) of approximately 9,735,925 shares or rights to acquire shares of its common stock held by Alpha Capital Anstalt, for 9,736 shares of Preferred Stock. The issuance of the 9,736 shares of Preferred Stock was exempt from registration under Section 4(a)(2) and/or 3(a)(9) under the Securities Act.

The Company issued 26,644,979 shares of common stock to the existing shareholders of Microbot Israel Ltd. (“Microbot Israel”) and assumed options to purchase an aggregate of 2,614,916 shares of common stock of the existing optionholders of Microbot Israel. Additionally, the Company issued an aggregate of 7,802,639 restricted shares of its common stock or rights to receive common stock to certain advisors. Such sales were exempt from registration under Section 4(a)(2) and Regulation D under the Securities Act.

Item 16. Exhibits and financial statement schedules.

(a) Exhibits.

See the Exhibit Index immediately preceding the signature page to this registration statement, which is incorporated by reference herein.

(b) Financial statement schedules.

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes to provide to the underwriter at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each investor.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(5) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(7) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-4

EXHIBIT INDEX

Exhibit Number	Description of Document
1.1†	Form of Underwriting Agreement.
2.1	Agreement and Plan of Merger and Reorganization, dated as of August 15, 2016, by and among StemCells, Inc., C&RD Israel Ltd. and Microbot Medical Ltd. (incorporated by reference to the Company's Current Report on Form 8-K filed on August 15, 2016).
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 15, 2007).
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2016).
3.3	Certificate of Amendment to the Restated Certificate of Incorporation (incorporated by reference to the Company's Current Report on Form 8-K filed on September 4, 2018).
3.4	Certificate of Designations of Preferences, Rights and Limitations of the Series A Convertible Preferred Stock (incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 16, 2016).
3.5	Certificate of Designation of Preferences, Rights and Limitations of the Series A Convertible Preferred Stock (incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 11, 2017).
3.6	Amended and Restated By-Laws of the Company (incorporated by reference to the Company's Current Report on Form 8-K filed on May 3, 2016).
4.1	Form of Series A Warrant (incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 16, 2016).
4.2	Form of Series B Warrant (incorporated by reference to the Company's Current Report on Form 8-K filed on December 16, 2016).
4.3†	Form of Pre-Funded Warrant.
4.4†	Form of Underwriter's Warrant.
4.5	Form of Pre-Funded Warrant (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 16, 2019)
4.6	Form of Wainwright Warrant (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 16, 2019)

4.7	Form of Wainwright Warrant (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 17, 2019).
4.8	Form of Warrant (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 25, 2019).
4.9	Form of Wainwright Warrant (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 25, 2019).
5.1†	Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C.
10.1	Letter Agreement between the Company and Alpha Capital Anstalt (incorporated by reference from the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2016).
10.2	Securities Exchange Agreement between the Company and Alpha Capital Anstalt (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2016).
10.3	Convertible Promissory Note in favor of Alpha Capital Anstalt (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2016).
10.4	Form of Indemnification Agreement, between the Company and Each of its Directors and Officers (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2016).
10.5	Employment Agreement with Harel Gadot (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2016).
10.6	Services Agreement with DBN Finance Services Ltd. (incorporated by reference to the Company's Current Report on Form 8-K filed on November 29, 2016).
10.7	Employment Agreement with Yehezkel Himelfarb (incorporated by reference to the Company's Current Report on Form 8-K filed on December 8, 2016).
10.8	Securities Exchange Agreement, dated December 16, 2016, by and between StemCells, Inc. and Alpha Capital Anstalt (incorporated by reference to the Company's Current Report on Form 8-K filed on December 16, 2016).
10.9	Form of Securities Purchase Agreement, dated January 5, 2017 (incorporated by reference to the Company's Current Report on Form 8-K filed on January 5, 2017).
10.10	Placement Agreement, dated January 4, 2017 (incorporated by reference to the Company's Current Report on Form 8-K filed on January 5, 2017).
10.11	Asset Purchase Agreement, dated November 11, 2016, by and among StemCells, Inc., Stem Cell Sciences Holdings Limited, Stemcells California, Inc., and Boco Silicon Valley, Inc. (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed on March 21, 2017).
10.12	Escrow Agreement, dated as of November 11, 2016, by and among BOCO Silicon Valley, Inc., StemCells, Inc., Continental Stock Transfer & Trust Company, Kenneth B. Stratton and Alpha Capital Anstalt (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended

December 31, 2016 and filed on March 21, 2017).

Exhibit Number	Description of Document
10.13	Contract Research Agreement, dated January 27, 2017, with The Washington University (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed on March 21, 2017).
10.14	License Agreement, dated June 20, 2012, by and between Technion Research and Development Foundation, and Microbot Medical Ltd. (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed on March 21, 2017).
10.15	Microbot Medical Inc. 2017 Equity Incentive Plan (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2017, filed on November 14, 2017).
10.16	Letter Agreement, by and between the Company and Martin McGlynn, dated January 10, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2016, filed on May 10, 2016).
10.17	Severance Buy-Out Agreement, Compromise and Release, by and between StemCells, Inc. and Ken Stratton, dated June 6, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.18	Severance Buy-Out Agreement, Compromise and Release, by and between StemCells, Inc. and Gregory Schiffman, dated June 6, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.19	Severance Buy-Out Agreement, Compromise and Release, by and between StemCells, Inc. and Ian Massey, dated June 6, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.20	Cooperation and Consulting Agreement, by and between StemCells, Inc. and Ken Stratton, dated June 6, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.21	Cooperation and Consulting Agreement, by and between StemCells, Inc. and Gregory Schiffman, dated June 6, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.22	Cooperation and Consulting Agreement, by and between StemCells, Inc. and Ian Massey, dated June 6, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.23	Trust Agreement, by and between StemCells, Inc. and David A. Bradlow, dated June 16, 2016 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed on August 15, 2016).
10.24	Securities Exchange Agreement, dated May 10, 2017, by and between the Company and Capital Anstalt (incorporated by reference to the Company's Current Report on Form 8-K filed on January 8, 2018).

10.25	Asset Purchase Agreement, dated July 13, 2016, by and between StemCells, Inc. and Miltenyi Biotec, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed on August 15, 2016).
10.26	Settlement Agreement, dated as of July 29, 2016, by and between BMR-Pacific Research Center LP and StemCells, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed on August 15, 2016).
10.27	Agreement, dated January 4, 2018, by and between CardioSert Ltd. and Microbot Medical Ltd. (incorporated by reference to the Company's Current Report on Form 8-K filed on January 8, 2018).
10.29^	Tolling and Standstill Agreement, dated as of April 2, 2018, by and among (a) Schulte Roth & Zabel LLP, on behalf of Empery Asset Master, Ltd., Empery Tax Efficient LP, Empery Tax Efficient II LP, and Hudson Bay Master Fund, Ltd. and (b) Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., on behalf of the Company.
10.30	Engagement Letter, dated as of October 12, 2018, by and between Microbot Medical Inc. and H.C. Wainwright & Co., LLC (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 16, 2019)
10.31	Form of Securities Purchase Agreement, dated as of January 14, 2019, by and among Microbot Medical Inc., and the Purchaser (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 16, 2019)
10.32	Form of Securities Purchase Agreement, dated as of January 15, 2019, by and among Microbot Medical Inc., and the Purchaser (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 17, 2019)
10.33	Form of Securities Purchase Agreement, dated as of January 23, 2019, by and among Microbot Medical Inc., and the Purchaser (incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 25, 2019)
21.1	Subsidiaries of the Company (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed on March 21, 2017).
23.1†	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. Reference is made to Exhibit 5.1.
23.2 †	Consent of Independent Registered Public Accounting Firm.
24.1^	Power of Attorney.
101.INS	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.

† Filed herewith.
^ Previously filed.

II-6

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 4 to registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Hingham, Commonwealth of Massachusetts, on February 7, 2019 .

MICROBOT MEDICAL INC.

/s/ Harel Gadot
Harel Gadot
President, Chief Executive Officer and Chairman

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Harel Gadot Harel Gadot	Chairman, President and Chief Executive Officer *(Principal Executive Officer)*	February 7, 2019
/s/ David Ben Naim David Ben Naim	Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 7, 2019
* Yoav Waizer	Director	February 7, 2019
* Yoseph Bornstein	Director	February 7, 2019
* Pratipatti Laxminarain	Director	February 7, 2019
* Scott Burell	Director	February 7, 2019
*		

Martin Madden	Director	February 7, 2019

By:/s/ Harel Gadot*
Attorney-in-fact