

STEMCELLS INC
Form DEFM14A
September 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

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

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

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

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

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

- (4) Proposed maximum aggregate value of transaction:

\$311,103,602

- (5) Total fee paid: \$31,329

Fee paid previously with preliminary materials.

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

- (1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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September 26, 2016

To the Stockholders of StemCells, Inc.:

You are cordially invited to attend the special meeting of the stockholders of StemCells, Inc., which will be held at 2:00 p.m., local time, on October 26, 2016, at 39899 Balentine Drive, Suite 200, Newark, CA 94560, unless postponed or adjourned to a later date. This will be an important meeting affecting your investment in StemCells because we will be asking for stockholder approval necessary to complete the previously-announced merger with Microbot Medical Ltd, a privately held biotechnology company organized under the laws of the State of Israel.

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

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

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

At this special stockholder meeting, our stockholders will be asked to vote upon various proposals, most of which are necessary for us to complete the Merger. Specifically, StemCells is soliciting proxies for use at the special meeting of its stockholders to consider and vote upon (i) a proposal to approve and adopt the Merger Agreement; (ii) a proposal to approve the issuance of shares of StemCells common stock to advisors and to the Microbot shareholders in connection with the Merger, (iii) a proposal to approve an amendment to StemCells certificate of incorporation to effect a reverse stock split of StemCells common stock within the range of one-for-three to one-for-eleven, (iv) a proposal to approve an amendment to StemCells certificate of incorporation to increase the number of authorized shares of StemCells common stock to 220,000,000 shares, (v) a proposal to approve an amendment to StemCells certificate of incorporation to change the name of StemCells in connection with the Merger to Microbot Medical Inc. and (vi) an adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the proposals referred to in clauses (i) through (v).

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

Our Board of Directors has fixed the close of business on September 20, 2016, as the record date for determining those stockholders who are entitled to notice of, and to vote at, the special meeting of stockholders

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

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

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

By Order of the Board of Directors,

of StemCells Inc.,

Kenneth B. Stratton, Esq.

President & General Counsel

StemCells, Inc.

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

The accompanying proxy statement is dated September 26, 2016, and is first being mailed to StemCells stockholders on or about September 29, 2016.

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STEMCELLS, INC.

39899 Balentine Drive, Suite 200

Newark, CA 94560

(650) 670-2282

NOTICE OF SPECIAL MEETING OF STEMCELLS STOCKHOLDERS

TO BE HELD ON OCTOBER 26, 2016

Time: 2:00 p.m.

Date: October 26, 2016

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

Purposes:

1. To approve and adopt the Agreement and Plan of Merger and Reorganization, dated as of August 15, 2016 (the Merger Agreement), by and among StemCells, Microbot and C&RD Israel Ltd., a wholly owned subsidiary of StemCells (Merger Sub), and approve the transactions contemplated thereby;
2. To approve the issuance of StemCells common stock, par value \$0.01 per share, in connection with the Merger to advisors and to shareholders of Microbot, in each case as contemplated by the Merger Agreement;
3. To amend StemCells restated certificate of incorporation to effect a reverse stock split of StemCells issued and outstanding common stock within the range of one-for-three to one-for-eleven (with the exact amount to be determined by StemCells Board of Directors prior to the completion of the Merger);
4. To amend StemCells restated certificate of incorporation to increase the number of authorized shares of StemCells common stock from 200,000,000 to 220,000,000 shares;
5. To amend StemCells restated certificate of incorporation to change the name of StemCells from StemCells, Inc. to Microbot Medical Inc. ;
6. To approve the adjournment of the StemCells special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal Nos. 1, 2, 3, 4, or 5; and
7. To conduct any other business as may properly come before the StemCells special meeting or any adjournment or postponement thereof.

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

Only stockholders of record of StemCells at the close of business on September 20, 2016, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting.

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

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

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

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

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

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

Kenneth B. Stratton, Esq.

President & General Counsel

Newark, California

September 26, 2016

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STEMCELLS, INC.

PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS

ABOUT THIS DOCUMENT

StemCells, Inc., which we refer to herein as the Company, StemCells, we, our, or us, is providing these proxy materials in connection with the solicitation of proxies by our Board of Directors to be voted at our special meeting of stockholders to be held at 2:00 p.m., local time, on October 26, 2016, at 39899 Balentine Drive, Suite 200, Newark, CA 94560, or at any adjournment or postponement thereof. Commencing on or about September 29, 2016, this proxy statement and the enclosed proxy card will be mailed to each stockholder entitled to notice of, and to vote at, the special meeting.

You should rely only on the information contained in this proxy statement. No one has been authorized to provide you with information that is different from that contained in or incorporated by reference into this proxy statement. This proxy statement is dated September 26, 2016. You should not assume that the information contained in this proxy statement is accurate as of any other date. The mailing of this proxy statement to our stockholders will not create any implication to the contrary.

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

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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND
THE STEMCELLS SPECIAL MEETING**

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

Q: What is the Merger?

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

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

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

Q: Why am I receiving these materials?

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

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

Q: What will stockholders receive in the Merger?

A:

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

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For illustrative purposes only, if the Merger had been completed on August 15, 2016, the date of the Merger Agreement, the Exchange Ratio (without giving effect to the proposed reverse stock split described elsewhere in this proxy statement) would have been approximately 26.6 shares of StemCells common stock for each Microbot ordinary share. Therefore, if the Merger had been completed on such date and you owned 1,000 shares of StemCells common stock as of such date, you will continue to hold 1,000 shares of the combined company following the completion of the Merger. As a percentage, if you hold 5% of the outstanding common shares of StemCells calculated on a fully diluted basis immediately prior to the completion of the Merger and do not also hold common shares of Microbot, then upon completion of the Merger you will hold an aggregate of approximately 0.25% of the outstanding shares of common stock of the combined company calculated on a fully diluted basis.

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

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

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

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

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

A: There will be no adjustments to the Exchange Ratio based on changes in the price of StemCells common stock or the value of Microbot common shares prior to the completion of the Merger. However, the Exchange Ratio will be adjusted in connection with the reverse stock split described in Proposal 3. As a result of any changes in stock price or value, the aggregate market value of the shares of StemCells common stock that the Microbot shareholders are entitled to receive at the time that the Merger is completed could vary significantly from the value of such shares on the date of this proxy statement, the date of the StemCells special meeting, the date of the Microbot extraordinary general meeting of shareholders held on September 14, 2016, or the date on which the Microbot shareholders actually receive their shares of StemCells common stock.

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

Q: How will the Merger affect StemCells business?

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

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

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

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

A: Yes. The shares of StemCells common stock received by Microbot shareholders in the Merger will not be registered pursuant to the Securities Act of 1933, as amended (the Securities Act). The shares will carry a restrictive legend and will be able to be resold only pursuant to Rule 144 under the Securities Act, another exemption from registration, or in the event there is subsequently an effective registration statement. These restrictions on shares issued to Microbot shareholders in the Merger will not affect the transferability of shares already held by our existing stockholders. Our existing stockholders will be free to buy and sell shares of StemCells common stock on the open market as they currently do.

Q: What StemCells stockholder approvals are being solicited?

A: Each of the proposals contained in the notice is critical for StemCells to complete the Merger. Specifically, StemCells is seeking the following approvals in order to complete the Merger: (i) approval of the Merger Agreement, which approval requires the affirmative vote of a majority of the shares of StemCells common stock entitled to vote on the matter, either in person or by proxy, at the StemCells special meeting (Proposal 1, which is referred to as the Merger Agreement Proposal); (ii) the issuance of StemCells common stock in connection with the Merger (Proposal 2, which is referred to as the Share Issuance Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock cast, either in person or by proxy, at the StemCells special meeting; (iii) an amendment to StemCells' restated certificate of incorporation, as amended to date (the StemCells Certificate) to effect a reverse stock split of StemCells' issued and outstanding common stock in the range presented in this Proxy Statement (Proposal 3, which is referred to as the Reverse Stock Split Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding and entitled to vote on the matter; (iv) an amendment to the StemCells Certificate to increase the number of authorized shares of StemCells common stock from 200,000,000 to 220,000,000 shares (Proposal 4, which is referred to as the Authorized Shares Increase Proposal), which approval requires the affirmative vote of the holders of a majority of the shares of StemCells common stock outstanding

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

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

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

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

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

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

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

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

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

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

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

Q:

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

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

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

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

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

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

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

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

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

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

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

A: The StemCells special meeting will be held on October 26, 2016 at 2:00 p.m., local time, at 39899 Balentine Drive, Suite 200, Newark, CA 94560.

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

A: All StemCells stockholders of record as of the close of business on September 20, 2016, the record date for the StemCells special meeting, are entitled to receive notice of and to vote at the StemCells special meeting.

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

A: StemCells urges you to read this proxy statement carefully, including its annexes, and to consider how the Merger may affect you.

By mail. You may vote by mailing your signed StemCells proxy card in the enclosed return envelope. Please provide your proxy instructions only once and as soon as possible so that your shares can be voted at the StemCells special meeting.

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

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

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

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

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

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

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

Q: May I vote in person?

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

If your shares of StemCells common stock are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you are also invited to attend the StemCells special meeting.

However, because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the StemCells special meeting unless you obtain a legal proxy from the broker or other nominee that holds your shares giving you the right to vote the shares in person at the applicable stockholder meeting.

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

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

Q: What constitutes a quorum?

A: As of September 20, 2016, there were 16,259,598 shares of StemCells outstanding. Stockholders who hold a majority of the shares of StemCells common stock outstanding as of the close of business on the record date for the StemCells special meeting must be present, either in person or by proxy, in order to constitute a quorum to conduct business at the StemCells special meeting.

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Q: Who is paying for this proxy solicitation?

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

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

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

Okapi Partners

1212 Avenue of the Americas

24th Floor

New York, New York 10036

Attention Charles W. Garske

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

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

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

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

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

Q: Should I send in my stock certificates?

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

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SUMMARY

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

The Companies

StemCells, Inc.

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

Microbot Inc.

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

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

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

C&RD Israel Ltd.

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

The Merger

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

Table of Contents**Recommendations of the Board of Directors of StemCells and its Reasons for the Merger**

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

Opinion of the Financial Advisor to the StemCells Board of Directors

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

Overview of the Merger Agreement***Merger Consideration (see page 68)***

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

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

Conditions to Completion of the Merger (see page 86)

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

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

No Solicitation (see page 81)

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

solicit, initiate, or knowingly encourage, facilitate, induce, or take any other action that would reasonably be expected to lead to the making, submission, or announcement of any proposal or inquiry that constitutes, or is reasonably likely to lead to, a competing proposal

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

approve, endorse, enter into, or recommend a competing proposal or any letter of intent or contract contemplating a competing proposal or requiring the abandonment or termination of obligations under the Merger Agreement; or

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

Termination of the Merger Agreement (see page 86)

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

Termination Fees and Expenses (see page 87)

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

Microbot Private Placement

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

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

Voting Agreements

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

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

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

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

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

Management Following the Merger

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

Interests of Certain Directors, Officers and Affiliates of StemCells

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

Indemnification

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

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

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

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

Risk Factors

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

the issuance of shares of StemCells common stock to advisors and to Microbot shareholders in connection with the Merger will substantially dilute the voting power of current StemCells stockholders;

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

the lack of a public market for Microbot shares makes it difficult to determine the fair market value of Microbot, and the merger consideration to be issued to Microbot shareholders may exceed the actual value of Microbot;

StemCells stockholders will have a reduced ownership and voting interest in, and will exercise less influence over the management of, the combined company following the completion of the Merger;

the announcement and pendency of the Merger could have an adverse effect on StemCells' or Microbot's financial condition or business prospects;

failure to complete the Merger may adversely affect StemCells' and Microbot's financial results, future business and operations, as well as the market price of StemCells common stock;

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

StemCells and Microbot will incur substantial transaction-related costs in connection with the Merger;

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

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

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

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

Regulatory Approvals

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

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

NASDAQ Stock Market Listing

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

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

No Appraisal Rights or Dissenters' Rights

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

Table of Contents**SELECTED HISTORICAL AND UNAUDITED PRO FORMA COMBINED FINANCIAL DATA**

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

Selected Historical Financial Data of StemCells

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

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

Net loss from continuing operations

Discontinued Operations:(5)

Net loss from discontinued operations

(369) (452) (520) (1,146)

Net loss from disposal of assets

(111)

Basic and diluted loss per share:

From continuing operations \$ (0.66) \$ (2.60) \$ (4.56) \$ (6.28) \$ (7.18) \$ (11.64) \$ (17.07)

From discontinued operations

(0.09) (0.12) (0.22) (0.97)

Shares used in computing basic and diluted loss per share amounts*

10,746 17,812 7,984 5,134 3,619 2,402 1,182

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

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

- (1) For 2016, relates to the wind down of our current operations, given the decision to terminate our current clinical studies, our available strategic alternatives and our current cash position. For 2015, relates to restructuring costs under our strategic realignment plan. For 2013, 2012 and 2011, relates to wind-down and exit expenses in respect of our Rhode Island facility.
- (2) Following the decision to wind down our current operations, on June 30, 2016 we wrote down our tangible assets to their realizable value.
- (3) Relates to the fair value of warrants issued as part of our financing in 2011 and 2016.
- (4) Relates to our loan agreement with CIRM, pursuant to which in May 2016, we gave notice to CIRM that we elected to convert our loan into a Grant pursuant to the CIRM's Loan Administration Policy, as amended effective April 25, 2016, and as if the forgiven loan balance had been total allowable project costs funded by CIRM. In the second quarter of 2016, we re-classified the principal amount of approximately \$8,917,000 as Other income and the accrued interest of approximately \$243,000 as Gain on extinguishment of a loan in our Condensed Consolidated Statement of Operations.
- (5) In December 2014, we sold and completed the wind down of our subsidiary SCS UK's operations in Cambridge, United Kingdom and therefore, have classified the historical results of this component as a discontinued operation.
- (6) Relates to our loan payable with Silicon Valley Bank.
- (7) Data for 2015, 2014 and 2013 relates to the loan agreements with Silicon Valley Bank and the California Institute for Regenerative Medicine.

Selected Unaudited Pro Forma Combined Financial Data of StemCells and Microbot

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

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

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

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

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

Comparative Historical and Unaudited Pro Forma Per Share Data

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

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

StemCells	Six months ended	Year Ended December 31,
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	June 30, 2016	2015
Historical Per Common Share Data:		
Basic and diluted net loss per share	\$ (0.66)	\$ (4.56)
Book value per share	\$ (0.45)	\$ (0.04)

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

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

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

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

	Low(1)	High(1)
<u>2014</u>		
First Quarter	\$ 15.48	19.08
Second Quarter	\$ 14.16	25.68
Third Quarter	\$ 15.12	28.08
Fourth Quarter	\$ 10.20	15.48
<u>2015</u>		
First Quarter	\$ 11.76	16.56
Second Quarter	\$ 6.00	12.12
Third Quarter	\$ 4.56	7.08
Fourth Quarter	\$ 4.68	6.60
<u>2016</u>		
First Quarter	\$ 3.00	5.16
Second Quarter	\$ 0.33	4.44
Third Quarter (through September 23, 2016)	\$ 0.34	2.99

(1) Adjusted for the Company's one-for-twelve reverse stock split of outstanding shares on May 9, 2016. We have never paid any dividends on our common stock and have no intention to do so for the foreseeable future.

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RISK FACTORS

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

Risks Relating to the Merger

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

Pursuant to the terms of the Merger Agreement, it is anticipated that StemCells will issue shares of StemCells common stock advisors. Following the closing of the Merger, StemCells stockholders will own approximately 5% of the combined company, with the remaining 95% of the combined company ownership comprised 75% of existing Microbot shareholders and 20% by certain advisors (which includes an existing Microbot shareholder) pursuant to Section 5.29 of the Merger Agreement in each case calculated on a fully diluted basis. Accordingly, the issuance of shares of StemCells common stock to Microbot shareholders and advisors in connection with t