

InspireMD, Inc.  
Form 10-Q  
May 07, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended: March 31, 2018**

**OR**

**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: 001-35731**

**InspireMD, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**                              **26-2123838**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

**4 Menorat Hamaor St.**

**Tel Aviv, Israel 6744832**

(Address of principal executive offices)

(Zip Code)

**(888) 776-6204**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [ ]              Accelerated filer [ ]  
Non-accelerated filer [ ]              (Do not check if a smaller reporting company)  
Smaller reporting company [X]      Emerging growth company [ ]

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

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

The number of shares of the registrant's common stock, \$0.0001 par value, outstanding as of May 4, 2018: 6,449,832

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**INSPIREMD, INC.**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2018

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The amounts are stated in U.S. dollars in thousands

F-1

**INSPIREMD, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(U.S. dollars in thousands)

|   | March<br>31,<br>2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                                       |                      |                      |
| <b>CURRENT ASSETS:</b>                              |                      |                      |
| Cash and cash equivalents                           | \$4,637              | \$ 3,710             |
| Accounts receivable:                                |                      |                      |
| Trade, net  | 754                  | 643                  |
| Other   | 238                  | 207                  |
| Prepaid expenses                                    | 53                   | 62                   |
| Inventory   | 517                  | 533                  |
| <b>TOTAL CURRENT ASSETS</b>                         | <b>6,199</b>         | <b>5,155</b>         |
| <b>NON-CURRENT ASSETS:</b>                          |                      |                      |
| Property, plant and equipment, net                  | 444                  | 476                  |
| Deferred issuance costs                             | 155                  | -                    |
| Funds in respect of employee rights upon retirement | 487                  | 476                  |
| <b>TOTAL NON-CURRENT ASSETS</b>                     | <b>1,086</b>         | <b>952</b>           |
| <b>TOTAL ASSETS</b>                                 | <b>\$7,285</b>       | <b>\$ 6,107</b>      |

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**INSPIREMD, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(U.S. dollars in thousands other than share and per share data)

|  | <b>March 31,<br/>2018</b> | <b>December<br/>31, 2017</b> |
|--|---------------------------|------------------------------|
| <b>LIABILITIES AND EQUITY</b>  |                           |                              |
| <b>CURRENT LIABILITIES:</b>  |                           |                              |
| Accounts payable and accruals:   |                           |                              |
| Trade  | \$ 512                    | \$ 328                       |
| Other  | 2,417                     | 2,134                        |
| Contract Liability   | 26                        | 20                           |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>2,955</b>              | <b>2,482</b>                 |
| <b>LONG-TERM LIABILITIES-</b>  |                           |                              |
| Liability for employees rights upon retirement   | 635                       | 624                          |
| Derivative Liability   | 872                       |                              |
| <b>TOTAL LONG-TERM LIABILITIES</b>   | <b>1,507</b>              | <b>624</b>                   |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)</b>   |                           |                              |
| <b>TOTAL LIABILITIES</b>   | <b>4,462</b>              | <b>3,106</b>                 |
| <b>REDEEMABLE PREFERRED SHARES</b>   | <b>1,779</b>              | <b>274</b>                   |
| <b>EQUITY:</b>   |                           |                              |
| Common stock, par value \$0.0001 per share; 150,000,000 shares authorized at March 31, 2018 and December 31, 2017, respectively; 3,501,331 and 1,483,556 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively | -                         | -                            |
| Preferred B shares, par value \$0.0001 per share; 500,000 shares authorized at March 31, 2018 and December 31, 2017, respectively; 17,303 and 27,075 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively     | -                         | -                            |
| Preferred C shares, par value \$0.0001 per share; 1,172,000 shares authorized at March 31, 2018 and December 31, 2017, respectively; 451,695 and 741,651 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively | -                         | -                            |
| Preferred D shares, par value \$0.0001 per share; 750 shares authorized at March 31, 2018 and December 31, 2017, respectively; 300 and 750 issued and outstanding at March 31, 2018 and December 31, 2017, respectively                      | -                         | -                            |

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|   |           |           |
|---|-----------|-----------|
| Additional paid-in capital                                | 143,785   | 143,079   |
| Accumulated deficit                                       | (142,741) | (140,352) |
| Total equity  | 1,044     | 2,727     |
| Total liabilities, redeemable preferred shares and equity | \$ 7,285  | \$ 6,107  |

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

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**INSPIREMD, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

(U.S. dollars in thousands, except per share data)

|  | Three Months Ended<br>March 31 |            |
|--|--------------------------------|------------|
|  | 2018                           | 2017       |
| REVENUES   | \$ 1,007                       | \$ 569     |
| COST OF REVENUES   | 714                            | 495        |
| GROSS PROFIT   | 293                            | 74         |
| OPERATING EXPENSES:  |                                |            |
| Research and development   | 252                            | 350        |
| Selling and marketing  | 492                            | 532        |
| General and administrative   | 1,502                          | 1,596      |
| Total operating expenses   | 2,246                          | 2,478      |
| LOSS FROM OPERATIONS   | (1,953 )                       | (2,404 )   |
| FINANCIAL EXPENSES, net:   |                                |            |
| Interest expenses  | -                              | 119        |
| Other financial expenses   | 436                            | 35         |
| Total financial expenses   | 436                            | 154        |
| LOSS BEFORE TAX EXPENSES   | (2,389 )                       | (2,558 )   |
| TAX EXPENSES   | -                              | 1          |
| NET LOSS   | \$(2,389 )                     | \$(2,559 ) |
| NET LOSS PER SHARE - basic and diluted   | (1.08 )                        | (28.31 )   |
| WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN COMPUTING<br>NET LOSS PER SHARE - basic and diluted | 2,253,945                      | 112,756    |

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

**INSPIREMD, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(Unaudited)**

(U.S. dollars in thousands, except share data)

|   | Common stock |        | Series B Preferred Stock |        | Series C Preferred Stock |        | Series D Preferred Stock |        | Additional paid-in | Accumulated  | Total    |
|---|--------------|--------|--------------------------|--------|--------------------------|--------|--------------------------|--------|--------------------|--------------|----------|
|   | Shares       | Amount | Shares                   | Amount | Shares                   | Amount | Shares                   | Amount | Capital            | deficit      | equity   |
| <b>BALANCE AT DECEMBER 31, 2017</b>                     | 1,483,556    | *      | 27,075                   | *      | 741,651                  | *      | 750                      | *      | \$ 143,079         | \$(140,352 ) | \$ 2,727 |
| Net loss  |              |        |                          |        |                          |        |                          |        |                    | (2,389 )     | (2,389)  |
| Issuance of common shares, net of \$496 issuance costs  | 1,000,000    | *      |                          |        |                          |        |                          |        | 2,504              |              | 2,504    |
| Redemption of Series D Preferred Stock                  |              |        |                          |        |                          |        | (450)                    | *      | (450 )             |              | (450 )   |
| Conversion of Series B Preferred Stock to common shares | 80,620       | *      | (9,772 )                 | *      |                          |        |                          |        | 274                |              | 274      |
| Conversion of Series C Preferred Stock to common shares | 825,713      | *      |                          |        | (289,956)                | *      |                          |        | 936                |              | 936      |
| Classification of preferred shares                      |              |        |                          |        |                          |        |                          |        | (3,200 )           |              | (3,200)  |
| Accretion of redeemable preferred shares                |              |        |                          |        |                          |        |                          |        | 47                 |              | 47       |
| Exercise of Unit Purchase Option                        | 111,442      | *      |                          |        |                          |        |                          |        | 557                |              | 557      |
| Share-based compensation related to restricted stock    |              |        |                          |        |                          |        |                          |        | 38                 |              | 38       |

and stock

options award

**BALANCE AT**

**MARCH 31, 2018**    3,501,331    \*    17,303    \*    451,695    \*    300    \*    \$143,785    \$(142,741 )    \$1,044

\* Represents an amount less than \$1 thousand

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

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**INSPIREMD, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(U.S. dollars in thousands)

|  | <b>Three months<br/>ended<br/>March 31</b> |             |
|--|--|-------------|
|  | <b>2018</b>                                | <b>2017</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |  |             |
| Net loss   | \$(2,389)                                  | \$(2,559)   |
| Adjustments required to reconcile net loss to net cash used in operating activities:   |  |             |
| Depreciation and amortization  | 41   | 42          |
| Change in liability for employees right upon retirement  | 11   | (47 )       |
| Financial expenses   | 433  | (488 )      |
| Share-based compensation expenses  | 38   | 263         |
| Changes in operating asset and liability items:  |  |             |
| Decrease in prepaid expenses   | 9  | 44          |
| Increase in trade receivables  | (111 )                                     | (115 )      |
| Increase in other receivables  | (34 )                                      | (32 )       |
| Decrease in inventory  | 16   | 171         |
| Increase (decrease) in trade payables  | 184  | (267 )      |
| Increase in other payables and advance payment from customers  | 22   | 230         |
| Net cash used in operating activities  | (1,780)                                    | (2,758)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |  |             |
| Purchase of property, plant and equipment  | (1 )                                       | (153 )      |
| Amounts funded in respect of employee rights upon retirement, net  | (11 )                                      | (3 )        |
| Net cash used in investing activities  | (12 )                                      | (156 )      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |  |             |
| Proceeds from issuance of shares and warrants and exercise of unit purchase option, net of \$389 and \$685 issuance costs, respectively. | 3,168                                      | 6,162       |
| Redemption of series D preferred stock   | (450 )                                     |             |
| Repayment of long-term loan  | -  | (2,179)     |
| Net cash provided by financing activities  | 2,718                                      | 3,983       |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>  | 1  | (13 )       |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   | 927  | 1,056       |
| <b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>   | 3,710                                      | 7,516       |
| <b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>   | \$4,637                                    | \$8,572     |
| <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:</b>  |  |             |
| Placement Agent Fees in connection with short term warrants  | -  | \$107       |
| Classification of Redemption Obligation of Preferred Shares to Mezzanine and Embedded Derivative, see Note 3c                            | 1,943                                      | -           |
| Issuance costs   | \$262                                      | \$90        |

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

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**INSPIREMD, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 - DESCRIPTION OF BUSINESS**

**a. General**

InspireMD, Inc., a Delaware corporation (the “Company”), together with its subsidiaries, is a medical device company focusing on the development and commercialization of its proprietary MicroNet™ stent platform technology for the treatment of complex vascular and coronary disease.

MicroNet, a micron mesh sleeve, is wrapped over a stent to provide embolic protection in stenting procedures.

The Company’s carotid product (CGuard™ EPS) combines MicroNet and a self-expandable nitinol stent in a single device to treat carotid artery disease.

The Company’s coronary product combining MicroNet and a bare-metal stent (MGuard Prime™ EPS) is marketed for use in patients with acute coronary syndromes, notably acute myocardial infarction (heart attack) and saphenous vein graft coronary interventions (bypass surgery).

The Company markets its products through distributors in international markets, mainly in Europe and Latin America.

**b. Liquidity**

The Company has an accumulated deficit as of March 31, 2018, as well as a history of net losses and negative operating cash flows in recent years. The Company expects to continue incurring losses and negative cash flows from operations until its products (primarily CGuard™ EPS) reach commercial profitability. As a result of these expected losses and negative cash flows from operations, along with the Company’s current cash position, the Company only has sufficient resources to fund operations approximately 12 months from the date of the balance sheet. Therefore,

there is substantial doubt about the Company's ability to continue as a going concern. These financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

Management's plans include the continued commercialization of the Company's products and raising capital through the sale of additional equity securities, debt or capital inflows from strategic partnerships. There are no assurances however, that the Company will be successful in obtaining the level of financing needed for its operations. If the Company is unsuccessful in commercializing its products and raising capital, it may need to reduce activities, curtail or cease operations.

## **NOTE 2 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the financial position and results of operations of the Company. These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017, as found in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 13, 2018. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of results that could be expected for the entire fiscal year.

### **Revenue from contracts with customers**

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers, and all the related amendments (the "New Revenue Standard") to all contracts using the modified retrospective method. The standard did not have any effect upon its initial application.

### **Revenue recognition prior to the adoption of the New Revenue Standard**

Please refer to Note 1 to the consolidated financial statements and critical accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2017 for a summary of our significant accounting policies.

### **Revenue recognition following the adoption of the New Revenue Standard**

A contract with a customer exists only when: 1) the parties to the contract have approved it and are committed to perform their respective obligations, 2) the Company can identify each party's rights regarding the distinct goods or services to be transferred ("Performance Obligations"), 3) the Company can determine the transaction price for the goods or services to be transferred, 4) the contract has commercial substance and 5) it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for Performance Obligations upon transfer of control to the customer, excluding sales taxes.

Revenue from sales of goods, including sales to distributors, is recognized when the customer obtains control of the product. This occurs when products are shipped once the Company has a present right to payment, legal title, and risk and rewards of ownership are obtained by the customer.

The Company recognizes the incremental costs of obtaining contracts as an expense since the amortization period of the assets that the Company otherwise would have recognized is one year or less. The costs are recorded under selling and marketing expenses. Disaggregated revenue is disclosed in Note 9.



**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 3 - EQUITY:**

On February 7, 2018, the Company filed with the Secretary of State of Delaware a Certificate of Amendment to the **a.** Company's Amended and Restated Certificate of Incorporation to effect a one-for-thirty-five reverse stock split of its common stock, par value \$0.0001 per share, effective as of February 7, 2018.

On December 1, 2017, as part of a planned recapitalization, the Company sold 750 shares of Series D Convertible Preferred Stock (the "Series D Preferred Stock") to an institutional accredited investor (the "Series D Investor") in a private placement (the "Series D Private Placement") pursuant to a securities purchase agreement (the "Series D Purchase Agreement"), dated November 28, 2017, for aggregate gross proceeds of \$750,000. The stated value of each share of Series D Preferred Stock is \$1,000, and the Series D Preferred Stock is convertible, at the option of the holder, into shares of our common stock (subject to the beneficial ownership limitation set forth in the certificate of designation for the Series D Preferred Stock ("Series D Certificate of Designation")), at a conversion price of \$7.00 per share, subject to adjustment as provided in the Series D Certificate of Designation. Pursuant to the Series D Purchase Agreement and the Series D Certificate of Designation, the purchasers of Series D Preferred Stock have the option, subject to certain limitations, to exchange their Series D Preferred Stock into the securities issued in a subsequent offering (the "Series D Exchange Right") or into the securities the Company sells in an offering of our common stock or common stock equivalents for gross proceeds of at least \$8 million (a "Qualified **b.** Offering") upon consummation of a Qualified Offering on a \$1.00 per stated value for \$1.00 new subscription amount basis. In addition, in accordance with the Series D Purchase Agreement, the certificate of designation for the Series B Preferred Stock was amended to provide that each share of outstanding Series B Convertible Preferred Stock (the "Series B Preferred Stock") will be automatically exchanged into the securities the Company sells in a Qualified Offering on a \$1.00 per stated value for \$1.00 new subscription amount basis. As a result of the issuance and sale of the Series D Preferred Stock, the conversion price of our outstanding shares of Series B Preferred Stock was reduced to \$7.00 pursuant to the anti-dilution adjustment provisions of the Series B Preferred Stock. There was no change to the conversion price of our outstanding Series C Convertible Preferred Stock ("Series C Preferred Stock") as a result of an amendment made to the terms of the Series C Preferred Stock exempting the issuance of the Series D Preferred Stock from the anti-dilution adjustment provisions of the Series C Preferred Stock. The conversion price for each of our Series C Preferred Stock and our Series D Preferred was subsequently reduced to \$3.00 per share as described below.

**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 3 – EQUITY** (continued):

On February 21, 2018, the Series D Purchase Agreement was amended (“February 2018 SPA amendment”) to require the Company (i) to use 15% of the proceeds from any subsequent offering of the Company’s securities that is not a Qualified Offering to redeem the outstanding shares of the Series C Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series C Preferred Stock, and (ii) upon closing of any subsequent offering that is a Qualified Offering, to exchange all remaining outstanding shares of Series C Preferred Stock held by the Series D Investor for any securities issued in such Qualified Offering on a \$1.00 per stated value for \$1.00 new subscription amount basis (subject to the beneficial ownership limitation set forth in the certificate of designation for the Series C Preferred Stock). In the event that the Company fails, or is unable, to issue securities issued in the Qualified Offering to the Series D Investor in exchange for such investor’s remaining Series C Preferred Stock due to limitations mandated by the NYSE American, the Securities and Exchange Commission, or for any other reason, the Company is required to offer to purchase from such investor those shares of Series C Preferred Stock not exchanged for the securities sold in the Qualified Offering at a per share purchase price equal to the stated value of Series C Preferred Stock. This requirement to purchase from such investor those shares of Series C Preferred Stock not exchanged for the securities sold in the Qualified Offering at a per share purchase price equal to the stated value of Series C Preferred Stock in case of a Qualified Offering and the requirement to use 15% of the proceeds from any subsequent offering of our securities that is not a Qualified Offering to redeem the outstanding shares of the Series C Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series C Preferred Stock are referred to as “Redemption Obligations”

For accounting purposes, the Company analyzed the classification of the Series C Preferred Stock in light of the Redemption Obligations of the Company regarding such Preferred Stock as agreed upon in the February 2018 SPA amendment. Based on ASC 480-10-S99 the Company determined that since the Redemption Obligation may occur upon contingent events, such as subsequent financing transactions not meeting the threshold for a Qualified Offering, that are not solely within the Company’s control, the Series C Preferred Stock is considered as contingently redeemable and should be classified outside of permanent equity and within mezzanine equity.

In addition, the Company analyzed whether the conversion feature embedded in the shares of the Series C Preferred Stock subject to the Redemption Obligation should be bifurcated. As certain shares of the Series C Preferred Stock are contingently redeemable, the host contract was determined to be akin to debt and the conversion feature not clearly and closely related to the debt host given the anti-dilution protection included in the terms of these Series C Preferred Stock. Consequently, an embedded derivative was separated from the host contract and accounted for as a derivative instrument pursuant to Subtopic 815-10.

As of the date of the February 2018 SPA amendment, the Company classified an amount of \$3,200,000 from permanent equity to "Redeemable Preferred Shares" and "Derivative Liability" in an amount of \$2,580,000 and

\$620,000, respectively. The redeemable preferred shares are accreted on a straight-line basis over the term of the period.

The Company values Level 3 embedded derivative using an internally developed valuation model, whose inputs include potential equity transactions probability of completing successful fund raising during the relevant period and stock prices.

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**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 3 – EQUITY** (continued):

From February 21, 2018 until March 31, 2018, the Series D Investor converted 146,208 shares of Series C Preferred Stock. As of March 31, 2018, the Series D Investor held 353,792 shares of Series C Preferred Stock with a stated value of \$2,264,269.

d. On February 26, 2018, the Company and the Series D Investor entered into a waiver agreement (the “Waiver Agreement”) which provides that (i) the Series D Exchange Right would not be applicable to an offering of up to \$7,000,000 which occurred no later than March 9, 2018, (ii) the Company shall reduce the conversion price of the Series D Preferred Stock to the public offering price of our common stock in such offering, and (iii) instead of using 15% of the proceeds from such offering to redeem shares of Series C Preferred Stock held by the Series D Investor, the Company shall use 15% of the proceeds from such offering to redeem a portion of the outstanding shares of Series D Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series D Preferred Stock.

e. On March 1, 2018, the Company closed an underwritten public offering of 1,000,000 shares (the “March 1, 2018 Shares”) of the Company’s common stock. The offering price to the public of the March 1, 2018 Shares was \$3.00 per share. The Company received gross proceeds of \$3.0 million from the offering, before deducting underwriter commissions and discounts and other fees and expenses payable by the Company.

Pursuant to the Series D Purchase Agreement, as amended by February 2018 SPA amendment and the Waiver Agreement, following the closing of the offering on March 1, 2018, the Company used \$450,000 (representing 15% of the gross proceeds from the offering) to purchase from the Series D Investor 450 shares of the Series D Preferred Stock at a per share purchase price equal to the stated value of the Series D Preferred Stock.

In connection with the offering, the Company agreed to issue to the underwriter warrants to purchase up to 60,000 shares of common stock, or 6% of the number of shares of common stock sold in the offering (the “Underwriter Warrants”). The Underwriter Warrants are exercisable at any time and from time to time, in whole or in part, following the date of issuance and ending February 27, 2023, at a price per share equal to \$3.75 (125% of the offering price to the public per share).



**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 3 – EQUITY** (continued):

As a result of the offering, the respective conversion price for each of our Series B Preferred Stock, our Series C Preferred Stock and our Series D Preferred Stock was reduced to \$3.00 per share, and the number of shares of common stock issuable upon conversion of the Series B Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock had increased as follows:

an aggregate of 190,333 additional shares of common stock upon conversion of the Series B Preferred Stock and as payment of the dividends thereunder in common stock, based on 17,303 shares of Series B Preferred Stock outstanding as of March 1, 2018.

an aggregate of 1,497,427 additional shares of common stock upon conversion of the Series C Preferred Stock, based on 741,651 shares of Series C Preferred Stock outstanding as of March 1, 2018.

an aggregate of 142,857 additional shares of common stock upon conversion of the Series D Preferred Stock, based on 750 shares of Series D Preferred Stock outstanding as of March 1, 2018.

For accounting purposes, the Company analyzed whether the change in the conversion price of the Series D Preferred Stock constitutes an extinguishment for accounting purposes, by comparing the fair value of the Series D Preferred Stock immediately before and after such change in terms. Since the fair value increased substantially, i.e by more than 10%, the change in terms was accounted for as an extinguishment. As a result, the difference between the fair value of the Series D Preferred Stock immediately after the change in term (the conversion price) and the carrying amount immediately before such change, in the amount of \$49,000, was added to the basic loss per share contributable to the Company's common stockholders.

On March 28, 2018, the Company and the Series D Investor entered into the second waiver agreement which provided that (i) the Series D Exchange Right would not be applicable to a subsequent financing consisting solely of shares of common stock, which shall be publicly registered on Form S-3 for gross proceeds to us of up to \$5,000,000, to be consummated by not later than April 3, 2018 (the "Planned April 2018 Offering"), (ii) our obligation to use 15% of the proceeds from any subsequent offering of our securities that is not a Qualified Offering to redeem the outstanding shares of the Series C Preferred Stock held by the Series D Investor would not be applicable to the Planned April 2018 Offering, (iii) the Company shall reduce the conversion price of the Series D Preferred Stock to the public offering price of our common stock sold in the Planned April 2018 Offering, and (iv) the Company shall use \$300,000 of the proceeds from the Planned April 2018 Offering to redeem outstanding shares of Series C Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series C Preferred Stock.

On March 28, 2018, the Company entered into an underwriting agreement relating to an underwritten public offering of 2,857,143 shares of common stock.

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**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 3 – EQUITY** (continued):

Upon execution of the underwriting agreement, the respective conversion price of the outstanding shares of Series B Preferred Stock and Series C Preferred Stock was reduced to \$1.75 pursuant to the anti-dilution adjustment provisions of the Series B Preferred Stock and of the Series C Preferred Stock, and the number of shares of common stock issuable upon conversion of the Series B Preferred Stock and the Series C Preferred Stock had increased as follows:

an aggregate of 237,916 additional shares of common stock upon conversion of the Series B Preferred Stock and as payment of the dividends thereunder in common stock, based on 17,303 shares of Series B Preferred Stock outstanding as of March 28, 2018.

an aggregate of 688,297 additional shares of common stock upon conversion of the Series C Preferred Stock, based on 451,695 shares of Series C Preferred Stock outstanding as of March 28, 2018.

**f.** During the 3 month period ended March 31, 2018, 289,956 shares of Series C Preferred Stock were converted into 825,713 shares of common stock.

**g.** During the 3 month period ended March 31, 2018, 9,772 shares of Series B Preferred Stock were converted into 80,620 shares of common stock.

During January and February 2018, the placement agent from the an offering closed in July 2016 exercised its unit purchase option to purchase 13,508 units and received 13,508 shares of Series B Preferred Stock and 1,545 Series

**h.** A warrants to purchase common stock. The placement agent subsequently converted its Series B Preferred Stock and received an aggregate of 111,442 shares of common stock. The Company received an aggregate of \$557,205 from the placement agent for the exercise of the unit purchase option.

As of March 31, 2018, the outstanding Series B Preferred Stock are convertible into 570,999 shares of common stock, including the number of shares of common stock to be issued to the holders of Series B Convertible

**i.** Preferred Stock as cumulative dividends at the rate per share of 15% per annum of the stated value for five years, payable in cash or common stock, at the Company's discretion, but excluding effect of future conversion price adjustment, if any.

**j.** As of March 31, 2018, the outstanding Series C Preferred Stock are convertible into 1,651,913 shares of common stock.

**k.**



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As of March 31, 2018, the outstanding Series D Preferred Stock are convertible into 100,000 shares of common stock.

**l.** As of March 31, 2018, the outstanding Series A Warrants are convertible into 52,165 shares of common stock.

**m.** As of March 31, 2018, the outstanding Series B Warrants are convertible into 122,269 shares of common stock.

**n.** As of March 31, 2018, the Company has authorized 155,000,000 shares of capital stock, par value \$0.0001 per share, of which 150,000,000 are shares of common stock and 3,328,000 are shares of “blank check” preferred stock.

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**INSPIREMD, INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 4- NET LOSS PER SHARE:**

Set forth below is data taken into account in the computation of loss per share:

|  | March 31                                      |            |
|--|---|------------|
|  | 2018  | 2017       |
|  | (\$ in thousands except share and share data) |            |
| Net Loss   | \$(2,389 )                                    | \$(2,559 ) |
| Beneficial conversion feature of series C preferred shares           |   | (633 )     |
| Extinguishment of series C preferred shares                          | (49 )   |            |
| Adjusted Loss  | \$(2,438 )                                    | \$(3,192 ) |
| Weighted average of Ordinary Shares<br>outstanding during the period | 2,253,945                                     | 112,756    |
| Basic and diluted loss per share (dollars)                           | \$(1.08 )                                     | \$(28.31 ) |

The total number of shares of common stock related to outstanding options, warrants, restricted stock, Series C Preferred Stock, Series D Preferred Stock and the unexercised portion of the placement agent unit purchase option excluded from the calculations of diluted loss per share were 2,068,500 for the three-month period ended March 31, 2018.

The total number of shares of common stock related to outstanding options, warrants, restricted stock, Series C Preferred Stock and the unexercised portion of the placement agent unit purchase option excluded from the calculations of diluted loss per share were 425,743 for the three-month period ended March 31, 2017.

**NOTE 5 - FAIR VALUE MEASUREMENT:**

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The following tables summarize the activity for those financial liabilities where fair value measurements are estimated utilizing Level 3 inputs:

|   | Derivative<br>liability |
|---|-------------------------|
| Balance as of January 1, 2018   | \$ -                    |
| Classification of Redemption Obligation of preferred shares holder to Mezzanine | 620                     |
| Revaluation of embedded derivative- financial expenses                          | 433                     |
| Conversion of Series C Preferred Stock to common shares                         | (181 )                  |
| Balance as of March 31, 2018  | \$ 872                  |

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**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 5 - FAIR VALUE MEASUREMENT (continued):**

Level 3 liabilities include Derivative Liability related to the Company Series C Preferred Stock, as described in Note 3c. The Company values the Level 3 Derivative Liability using multi-period binomial model, whose inputs include probability of completing fund raising and the related fund raise amounts, volatility of stock prices, stock prices, term to extinguish the Series C Preferred Stock held by the Series D Investor.

In calculating the fair value of Derivative Liability, the Company used the following assumptions: stock price of \$4.20 and \$1.04 for the transaction date and for March 31, 2018, respectively and Volatility of 140.95% -166.60% and 152.92-200.35% for the transaction date and for March 31, 2018, respectively.

**Fair value of financial instruments**

The carrying amounts of financial instruments included in working capital approximate their fair value either because these amounts are presented at fair value or due to the relatively short-term maturities of such instruments.

As of both March 31, 2018, and December 31, 2017, allowance for doubtful accounts was \$72,000.

**NOTE 6 - INVENTORY:**

|                | March<br>31,<br>2018 | December<br>31, 2017 |
|----------------|----------------------|----------------------|
|                | (\$ in thousands)    |                      |
| Finished goods | \$126                | \$ 174               |

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|                            |       |        |
|----------------------------|-------|--------|
| Work in process            | 125   | 63     |
| Raw materials and supplies | 266   | 296    |
|                            | \$517 | \$ 533 |

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUALS - OTHER:**

|                                     | March<br>31,<br>2018 | December<br>31, 2017 |
|-------------------------------------|----------------------|----------------------|
|                                     | (\$ in thousands)    |                      |
| Employees and employee institutions | \$855                | \$ 853               |
| Accrued vacation and recreation pay | 195                  | 165                  |
| Accrued clinical trial expenses     | 462                  | 462                  |
| Provision for sales commissions     | 97                   | 109                  |
| Accrued expenses                    | 777                  | 514                  |
| Other                               | 31                   | 31                   |
|                                     | \$2,417              | \$ 2,134             |

**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES:**

**Litigation:**

The Company received written communication from a distributor to provide unspecified compensation for pre-paid goods subject to the voluntary field action (from April 2014). After considering the views of its legal counsel as well as other factors, the Company's management believes that there is a reasonably possible likelihood of a loss from any related future proceedings would range from a minimal amount up to 1,075,000 Euros.

On April 26, 2016 the Company received a suit seeking damages from the Company amounting to \$2.2 million in cash and unspecified compensation in equity in connection with certain finders' fees. By Order dated February 23, 2017, the U.S. District Court for the Southern District of New York granted our motion to dismiss the suit in its entirety. On January 23, 2018, the clerk entered judgment dismissing the complaint consistent with the District court's order. The claimants have not appealed the District Court's judgment, and the time in which to do so has expired. Accordingly, this matter is now closed.

In July 2016, a service provider filed a suit seeking damages from the Company's subsidiary amounting to \$1,967,822. The Company's management, after considering the views of its legal counsel as well as other factors, is of the opinion that a loss to the Company is neither probable nor in an amount or range of loss that is estimable.

**NOTE 9 – DISAGGREGATED REVENUE AND ENTITY WIDE DISCLOSURES:**

Revenues are attributed to geographic areas based on the location of the customers. The following is a summary of revenues:

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|           | Three months<br>ended<br>March 31 |       |
|-----------|-----------------------------------|-------|
|           | 2018                              | 2017  |
|           | (\$ in<br>thousands)              |       |
| Germany   | \$272                             | \$102 |
| Italy     | 187                               | 101   |
| Russia    | 50                                | 63    |
| Argentina | -                                 | 75    |
| Other     | 498                               | 228   |
|           | \$1,007                           | \$569 |

By product:

|        | Three months<br>ended<br>March 31 |       |
|--------|-----------------------------------|-------|
|        | 2018                              | 2017  |
|        | (\$ in<br>thousands)              |       |
| CGuard | \$831                             | \$359 |
| MGuard | 176                               | 210   |
|        | \$1,007                           | \$569 |

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**INSPIREMD, INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

**NOTE 9 - DISAGGREGATED REVENUE AND ENTITY WIDE DISCLOSURES** (continued):

By principal customers:

|            | Three<br>months<br>ended<br>March 31 |      |
|------------|--------------------------------------|------|
|            | 2018                                 | 2017 |
| Customer A | 25 %                                 | 0 %  |
| Customer B | 9 %                                  | 12 % |
| Customer C | 5 %                                  | 11 % |
| Customer D | 0 %                                  | 13 % |
| Customer E | 0 %                                  | 11 % |

All tangible long lived assets are located in Israel.

**NOTE 10 – SUBSEQUENT EVENTS**

On April 2, 2018, the Company closed a public offering of 2,857,143 shares (the “April 2, 2018 Shares”) of the Company’s common stock at the offering price to the public of \$1.75 per share. The Company received gross <sup>a.</sup> proceeds of \$5.0 million from the offering, before deducting underwriter discounts and commissions and other fees and expenses payable by the Company.

In connection with the offering, the Company agreed to issue to the underwriter warrants to purchase up to 171,429 shares of common stock, or 6% of the April 2, 2018 Shares sold in the offering (the “April Underwriter Warrants”). The April Underwriter Warrants will be exercisable at any time and from time to time, in whole or in part, following the date of issuance and ending March 28, 2023, at a price per share equal to \$2.1875 (125% of the offering price to the public per April 2, 2018 Share).



As a result of the issuance and sale of the April 2, 2018 Shares, the conversion price of the outstanding shares of Series D Preferred Stock was reduced to \$1.75 pursuant to the second waiver agreement, dated March 28, 2018, and the number of shares of common stock issuable upon conversion of the Series D Preferred Stock increased by an aggregate of 71,429 additional shares of common stock, based on 300 shares of Series D Preferred Stock outstanding as of April 2, 2018.

Pursuant to the Series D Purchase Agreement, as amended by the February 2018 SPA amendment, the Waiver Agreement and the second waiver agreement, dated March 28, 2018, following the closing of the offering on April 2, 2018, the Company used \$300,000 of the net proceeds of the offering to purchase from the Series D Investor 46,875 shares of the Series C Preferred Stock at a per share purchase price equal to the stated value of the Series C Preferred Stock.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.*

*Unless the context requires otherwise, references in this Form 10-Q to the "Company," "InspireMD," "we," "our" and "us" refer to InspireMD, Inc., a Delaware corporation, and its subsidiaries.*

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and will probably not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or our management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

our history of recurring losses and negative cash flows from operating activities, significant future commitments and the uncertainty regarding the adequacy of our liquidity to pursue our complete business objectives, and substantial doubt regarding our ability to continue as a going concern;

our need to raise additional capital to meet our business requirements in the future and such capital raising may be costly or difficult to obtain and could dilute out stockholders' ownership interests;

our ability to regain compliance with NYSE American listing standards;

our ability to generate revenues from our products and obtain and maintain regulatory approvals for our products;

our ability to adequately protect our intellectual property;

our dependence on a single manufacturing facility and our ability to comply with stringent manufacturing quality standards and to increase production as necessary;

the risk that the data collected from our current and planned clinical trials may not be sufficient to demonstrate that our technology is an attractive alternative to other procedures and products;

market acceptance of our products;

negative clinical trial results or lengthy product delays in key markets;

an inability to secure and maintain regulatory approvals for the sale of our products;

intense competition in our industry, with competitors having substantially greater financial, technological, research and development, regulatory and clinical, manufacturing, marketing and sales, distribution and personnel resources than we do;

entry of new competitors and products and potential technological obsolescence of our products;

inability to carry out research, development and commercialization plans;

loss of a key customer or supplier;

technical problems with our research and products and potential product liability claims;

product malfunctions;

price increases for supplies and components;

adverse economic conditions;

insufficient or inadequate reimbursement by governmental and other third-party payers for our products;

our efforts to successfully obtain and maintain intellectual property protection covering our products, which may not be successful;

adverse federal, state and local government regulation, in the United States, Europe or Israel and other foreign jurisdictions;

the fact that we conduct business in multiple foreign jurisdictions, exposing us to foreign currency exchange rate fluctuations, logistical and communications challenges, burdens and costs of compliance with foreign laws and political and economic instability in each jurisdiction;

the escalation of hostilities in Israel, which could impair our ability to manufacture our products; and

loss or retirement of key executives and research scientists.

For a discussion of these and other risks that relate to our business and investing in our common stock, you should carefully review the risks and uncertainties described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the twelve month period ended December 31, 2017, and those described from time to time in our future reports filed with the Securities and Exchange Commission. The forward-looking statements contained in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. We do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

## **Overview**

We are a medical device company focusing on the development and commercialization of our proprietary MicroNet™ stent platform technology for the treatment of complex vascular and coronary disease. A stent is an expandable “scaffold-like” device, usually constructed of a metallic material, that is inserted into an artery to expand the inside passage and improve blood flow. Our MicroNet, a micron mesh sleeve, is wrapped over a stent to provide embolic protection in stenting procedures.

Our CGuard™ carotid embolic prevention system (“CGuard EPS”) combines MicroNet and a self-expandable nitinol stent in a single device for use in carotid artery applications. Our CGuard EPS received CE mark approval in the European Union in March 2013, and we launched its release on a limited basis in October 2014. In January 2015, a new version of CGuard, with a rapid exchange delivery system, received CE mark approval in Europe and in September 2015, we announced the full market launch of CGuard EPS in Europe. Subsequently, we launched CGuard EPS in Russia and certain countries in Latin America and Asia, and, in January 2018, received regulatory approval to commercialize CGuard EPS in India. We consider the addressable market for our CGuard EPS consists of individuals with diagnosed, symptomatic high-grade carotid artery stenosis (HGCS,  $\geq 70\%$  occlusion) for whom an intervention is preferable to medical (drug) therapy. This group includes not only carotid artery stenting patients but also individuals undergoing carotid endarterectomy, as the two approaches compete for the same patient population. Assuming full penetration of the intervention caseload by CGuard EPS, we estimate that the addressable market for CGuard EPS was approximately \$1.0 billion in 2017. (source: Health Research International 2017 Results of Update Report on Global Carotid Stenting Procedures and Markets by Major Geography and Addressable Markets).

In April 2017, we had a pre-investigational device exemption (“IDE”) submission meeting with the U.S. Food and Drug Administration regarding CGuard EPS where we presented materials that we believed would support a formal IDE submission seeking approval to conduct a human clinical trial in the United States which included our draft synopsis for the clinical trial design. We intend to make a formal submission once sufficient funds are available.

If we receive sufficient proceeds from future financings, we plan to develop CGuard EPS with a smaller delivery catheter (5 French gauge), which we intend to submit for CE mark approval. We cannot give any assurance that we will receive sufficient (or any) proceeds from any such financings or the timing of such financings, if ever. In addition, such additional financings may be costly or difficult to complete. Even if we receive sufficient proceeds from future financings, there is no assurance that we will be able to timely apply for CE mark approval following our receipt of such proceeds.

Our MGuard™ Prime™ Embolic Protection System (“MGuard Prime EPS”) is marketed for use in patients with acute coronary syndromes, notably acute myocardial infarction (heart attack) and saphenous vein graft coronary interventions (bypass surgery). MGuard Prime EPS combines MicroNet with a bare-metal cobalt-chromium based stent. MGuard Prime EPS received CE mark approval in the European Union in October 2010 for improving luminal diameter and providing embolic protection. However, as a result of a shift in industry preferences away from bare-metal stents in favor of drug-eluting (drug-coated) stents, in 2014 we decided to curtail further development of this product in order to focus on the development of a drug-eluting stent product, MGuard DES™. Due to limited resources, though, our efforts have been limited to testing drug-eluting stents manufactured by potential partners for compatibility with MicroNet and seeking to incorporate MicroNet onto a drug-eluting stent manufactured by a potential partner.

We also commenced development of a neurovascular flow diverter, which is an endovascular device that directs blood flow away from cerebral aneurysms in order to ultimately seal the aneurysms. Our flow diverter would utilize an open cell, highly flexible metal scaffold to which MicroNet would be attached. We have completed initial pre-clinical testing of this product in both simulated bench models and standard in vivo pre-clinical models. However, until we have greater financial resources, further development of this product has been suspended. Moreover, at this time, we plan to focus our resources primarily on the further expansion of our sales and marketing activities for CGuard EPS.

We also intend to develop a pipeline of other products and additional applications by leveraging our MicroNet technology to new applications to improve peripheral vascular and neurovascular procedures, such as the treatment of the superficial femoral artery disease, vascular disease below the knee and neurovascular stenting to seal aneurysms in the brain.

Presently, none of our products may be sold or marketed in the United States.

In 2017, we decided to shift our commercial strategy to focus on sales of our products through local distribution partners and our own internal sales initiatives to gain greater reach into all the relevant clinical specialties and to expand our geographic coverage. Pursuant to our new strategy, we completed our transition away from a single distributor covering 18 European countries to a direct distribution model intended to broaden our sales efforts to key clinical specialties. All territories previously covered by our former European distributor were transferred to local distributors by June 2017. We also have begun to participate in international trade shows and industry conferences in an attempt to gain market exposure and brand recognition.

## Recent Events

### *Recent Financings and Recapitalization*

On March 14, 2017, we closed a “best efforts” public offering of 1,069,822 shares of Series C Convertible Preferred Stock (the “Series C Preferred Stock”), Series B warrants to purchase 122,269 shares of common stock and Series C warrants to purchase 122,269 shares of common stock. The Series C Warrants expired on September 14, 2017. The Series B warrants have a term of five years and an exercise price of \$70.00 per share of common stock, subject to adjustment as provided in the Series B warrants. We received gross proceeds of approximately \$6.8 million from the offering, before deducting placement agent fees and offering expenses.

On December 1, 2017, as part of a planned recapitalization, we sold 750 shares of Series D Convertible Preferred Stock (the “Series D Preferred Stock”) to an institutional accredited investor (the “Series D Investor”) in a private placement (the “Series D Private Placement”) pursuant to a securities purchase agreement (the “Series D Purchase Agreement”), dated November 28, 2017, for aggregate gross proceeds of \$750,000. The stated value of each share of Series D Preferred Stock is \$1,000, and the Series D Preferred Stock is convertible, at the option of the holder, into shares of our common stock (subject to the beneficial ownership limitation set forth in the certificate of designation for the Series D Preferred Stock (“Series D Certificate of Designation”)), at a conversion price of \$7.00 per share, subject to adjustment as provided in the Series D Certificate of Designation. Pursuant to the Series D Purchase Agreement and the Series D Certificate of Designation, the purchasers of Series D Preferred Stock have the option, subject to certain limitations, to exchange their Series D Preferred Stock into the securities issued in a subsequent offering (the “Series D Exchange Right”) or into the securities we sell in an offering of our common stock or common stock equivalents for gross proceeds of at least \$8 million (a “Qualified Offering”) upon consummation of a Qualified Offering on a \$1.00 per stated value for \$1.00 new subscription amount basis. In addition, in accordance with the Series D Purchase Agreement, the certificate of designation for the Series B Preferred Stock was amended to provide that each share of outstanding Series B Convertible Preferred Stock (the “Series B Preferred Stock”) will be automatically exchanged into the securities we sell in a Qualified Offering on a \$1.00 per stated value for \$1.00 new subscription amount basis. As a result of the issuance and sale of the Series D Preferred Stock, the conversion price of our outstanding shares of Series B Preferred Stock was reduced to \$7.00 pursuant to the anti-dilution adjustment provisions of the Series B Preferred Stock. There was no change to the conversion price of our outstanding Series C Preferred Stock as a result of an amendment made to the terms of the Series C Preferred Stock exempting the issuance of the Series D Preferred Stock from the anti-dilution adjustment provisions of the Series C Preferred Stock. The conversion price for each of our Series B Preferred Stock, our Series C Preferred Stock and our Series D Preferred was subsequently reduced to \$3.00 per share and to \$1.75 as described below.

On February 21, 2018, the Series D Purchase Agreement was amended to require us (i) to use 15% of the proceeds from any subsequent offering of our securities that is not a Qualified Offering to redeem the outstanding shares of the Series C Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series C Preferred Stock, and (ii) upon closing of any subsequent offering that is a Qualified Offering, to exchange all remaining outstanding shares of Series C Preferred Stock held by the Series D Investor for any securities issued in



such Qualified Offering on a \$1.00 per stated value for \$1.00 new subscription amount basis (subject to the beneficial ownership limitation set forth in the certificate of designation for the Series C Preferred Stock). In the event that we fail, or are unable, to issue securities issued in the Qualified Offering to the Series D Investor in exchange for such investor's remaining Series C Preferred Stock due to limitations mandated by the NYSE American, the Securities and Exchange Commission, or for any other reason, we are required to offer to purchase from such investor those shares of Series C Preferred Stock not exchanged for the securities sold in the Qualified Offering at a per share purchase price equal to the stated value of Series C Preferred Stock.

On February 26, 2018, we and the Series D Investor entered into a waiver agreement which provided that (i) the Series D Exchange Right would not be applicable to an offering of up to \$7,000,000 which occurred no later than March 9, 2017, (ii) we shall reduce the conversion price of the Series D Preferred Stock to the public offering price of our common stock in such offering, (iii) instead of using 15% of the proceeds from such offering to redeem shares of Series C Preferred Stock held by the Series D Investor, we shall use 15% of the proceeds from such offering to redeem a portion of the outstanding shares of Series D Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series D Preferred Stock, and (iv) we shall file a registration statement with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in order to register the resale of the shares of common stock issuable upon the conversion of the Series D Preferred Stock as soon as practicable following the closing of such offering, but in no event later than seven days following such closing and to cause such registration statement to become effective as soon as practical after its filing.

On March 1, 2018, we closed an underwritten public offering of 1,000,000 shares of our common stock at a price to the public of \$3.00 per share, thus triggering the rights under the above described February 26, 2018 agreement. Upon closing of the offering, we used 15% of the proceeds from the offering to redeem 450 shares of Series D Preferred Stock. As a result of such offering, the conversion price for each of our Series B Preferred Stock, our Series C Preferred Stock and our Series D Preferred Stock was reduced to \$3.00 per share.

On March 28, 2018, we and the Series D Investor entered into the second waiver agreement which provides that (i) the Series D Exchange Right would not be applicable to a subsequent financing consisting solely of shares of common stock, which shall be publicly registered on Form S-3 for gross proceeds to us of up to \$5,000,000, to be consummated by not later than April 3, 2018 (the “Planned April 2018 Offering”), (ii) our obligation to use 15% of the proceeds from any subsequent offering of our securities that is not a Qualified Offering to redeem the outstanding shares of the Series C Preferred Stock held by the Series D Investor would not be applicable to the Planned April 2018 Offering, (iii) we shall reduce the conversion price of the Series D Preferred Stock to the public offering price of our common stock sold in the Planned April 2018 Offering, and (iv) we shall use \$300,000 of the proceeds from the Planned April 2018 Offering to redeem outstanding shares of Series C Preferred Stock held by the Series D Investor at a per share purchase price equal to the stated value of the Series C Preferred Stock.

On April 2, 2018, we closed an underwritten public offering of 2,857,143 shares of our common stock at a price to the public of \$1.75 per share, thus triggering the rights under the above described March 28, 2018 second waiver agreement. Upon closing of the offering, we used \$300,000 of the proceeds from the offering to redeem 46,875 shares of our Series C Preferred Stock held by the Series D Investor. As a result of such offering, the conversion price for each of our Series B Preferred Stock, our Series C Preferred Stock and our Series D Preferred Stock was reduced to \$1.75 per share.

#### *NYSE American Notification*

On August 17, 2017, we received a notice from NYSE American LLC (“NYSE American”) indicating that we do not meet the continued listing standards of the NYSE American as set forth in Part 10 of the NYSE American Company Guide (the “Company Guide”). Specifically, we were not in compliance with Section 1003(a)(iii) of the Company Guide because we reported stockholders’ equity of less than \$6 million as of June 30, 2017, and net losses in our five most recent fiscal years ended December 31, 2016. As a result, we became subject to the procedures and requirements of Section 1009 of the Company Guide. On October 19, 2017, NYSE American accepted our plan to regain compliance with Section 1003(a)(iii) of the Company Guide by February 17, 2019. We are subject to periodic review by the NYSE American staff during the period covered by the compliance plan. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the plan period could result in our common stock being delisted from the NYSE American.

On November 22, 2017, we received an additional letter from the NYSE American indicating that we are not in compliance with the stockholders' equity and net income continued listing standards set forth in Section 1003(a)(ii) of the Company Guide because we reported stockholders' equity of less than \$4 million as of September 30, 2017. We have until February 17, 2019, to regain compliance with the continued listing requirements.

On January 16, 2018, we received notification from the NYSE American that we are not in compliance with certain NYSE American continued listing standards. The deficiency letter states that our shares of common stock have been selling for a low price per share for a substantial period of time. Pursuant to Section 1003(f)(v) of the Company Guide, the NYSE American staff determined that our continued listing is predicated on us effecting a reverse stock split of our common stock or otherwise demonstrating sustained price improvement within a reasonable period of time, which the staff determined to be until July 16, 2018.

### *Reverse Stock Split*

Effective as of 5:00 p.m. Eastern Time on February 7, 2018, we amended our amended and restated certificate of incorporation in order to effectuate a 1-for-35 reverse stock split of our outstanding shares of common stock. Although we expect that the reverse stock split will result in an increase in the market price of our common stock, the reverse stock split may not result in a permanent increase in the market price of our common stock, which is dependent on many factors, including general economic, market and industry conditions and other factors. We have adjusted all outstanding restricted stock units, stock options, preferred stock and warrants entitling the holders to purchase shares of our common stock as a result of the reverse stock split, as required by the terms of these securities. In particular, we have reduced the conversion ratio for each security, and increased the exercise price in accordance with the terms of each security based on the reverse stock split ratio (i.e., the number of shares issuable under such securities has been divided by thirty-five, and the exercise price per share has been multiplied by thirty-five). Also, we reduced the number of shares reserved for issuance under the InspireMD, Inc. 2013 Long-Term Incentive Plan, proportionately based on the reverse stock split ratio. The reverse stock split does not otherwise affect any of the rights currently accruing to holders of our common stock, or options or warrants exercisable for our common stock. All share and related option and warrant information presented in this Annual Report on Form 10-K have been retroactively adjusted to reflect the reduced number of shares outstanding and the increase in share price which resulted from this action.

### **Critical Accounting Policies**

A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operation and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are more fully described in both (i) "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and (ii) Note 2 of the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017. There have not been any material changes to such critical accounting policies since December 31, 2017.

The currency of the primary economic environment in which our operations are conducted is the U.S. dollar (" \$" or "dollar").

### **Contingencies**

We and our subsidiaries are involved in legal proceedings that arise from time to time in the ordinary course of business. We record accruals for these types of contingencies to the extent that we conclude the occurrence of such

contingencies is probable and that the related liabilities are estimable. When accruing these costs, we recognize an accrual in the amount within a range of loss that is the best estimate within the range. When no amount within the range is a better estimate than any other amount, we accrue for the minimum amount within the range. Legal costs are expensed as incurred.

## Results of Operations

*Three months ended March 31, 2018 compared to the three months ended March 31, 2017*

*Revenues.* For the three months ended March 31, 2018, revenue increased by \$438,000, or 77.0%, to \$1,007,000, from \$569,000 during the three months ended March 31, 2017. This increase was predominantly driven by a 131.5% increase in sales of CGuard EPS from \$359,000 in the three months ended March 31, 2017, to \$831,000 in the three months ended March 31, 2018, as we transitioned from our prior exclusive distribution partner for most of Europe to local distributors, continued focus on expanding existing markets such as Italy and expanded into new geographies such as India. The transition to local distributors reflects an effort to broaden our sales from only interventional neuroradiologists to include vascular surgeons, interventional cardiologists and interventional radiologists, as well. This increase in sales of CGuard EPS was partially offset by a 16.2% decrease in sales of MGuard Prime EPS from \$210,000 in the three months ended March 31, 2017, to \$176,000 in the three months ended March 31, 2018, largely driven by doctors increasingly using drug-eluting stents rather than bare metal stents such as MGuard Prime EPS in STEMI patients.

With respect to regions, the increase in revenue was primarily attributable to an increase of \$464,000 in revenue from sales made in Europe (driven by \$435,000 growth of CGuard EPS for reasons mentioned above), as well as an increase of \$48,000 in revenue from sales made in Asia (driven by \$48,000 growth of CGuard EPS for reasons mentioned above). These increases in Europe and Asia were partially offset by a decrease of \$69,000 in sales made in Latin America (driven primarily by a decrease of \$61,000 in revenues of MGuard Prime EPS largely driven by doctors increasingly using drug-eluting stents rather than bare metal stents such as MGuard Prime EPS in STEMI patients).

*Gross Profit (Loss).* For the three months ended March 31, 2018, gross profit (revenue less cost of revenues) increased by 295.9%, or \$219,000, to \$293,000, compared to \$74,000 during the three months ended March 31, 2017. This increase resulted primarily from an increase of \$212,000 due to the increase in revenues (as mentioned above), less the related material and labor costs; a decrease of \$24,000 in expenses related to the underutilization of our manufacturing resources and a decrease of \$18,000 in miscellaneous expenses. These increases in gross profit were partially offset by an increase of \$35,000 in write-offs of inventory of MGuard Prime EPS, which primarily resulted from a reversal of write-offs of inventory in the three months ended March 31, 2017, for which, no such reversal occurred in the same period in 2018. Gross margin (gross profits as a percentage of revenue) increased to 29.1% in the three months ended March 31, 2018 from 13.0% in the three months ended March 31, 2017.

*Research and Development Expenses.* For the three months ended March 31, 2018, research and development expenses decreased by 28.0% or \$98,000, to \$252,000, from \$350,000 during the three months ended March 31, 2017. This decrease resulted primarily from a decrease of \$47,000 in development and clinical expenses associated with CGuard EPS, a decrease of \$18,000 due to a salary accrual in 2017 and a decrease of \$33,000 in miscellaneous expenses.

*Selling and Marketing Expenses.* For the three months ended March 31, 2018, selling and marketing expenses decreased by 7.5%, or \$40,000, to \$492,000, from \$532,000 during the three months ended March 31, 2017. This decrease resulted primarily from a decrease of \$39,000 in expenditures related to our participation in trade shows and promotional activities, a decrease of \$32,000 in consulting expenses and a decrease of \$38,000 in miscellaneous expenses. The decrease in these expenditures is primarily due to the Company not incurring in the three months ended March 31, 2018, the expenditures made during the three months ended March 31, 2017 to support the newly launched CGuard EPS-related sales and marketing activities in connection with the transition from our prior exclusive distribution partner for most of Europe to local distributors. These decreases in expenses were partially offset by an increase of \$69,000 in salary expenses due primarily to an increase in our headcount to further support the new local distributors in Europe.

*General and Administrative Expenses.* For the three months ended March 31, 2018, general and administrative expenses decreased by 5.9%, or \$94,000, to \$1,502,000, from \$1,596,000 during the three months ended March 31, 2017. This decrease resulted primarily from a decrease of \$204,000 in share-based compensation expenses primarily due to the Company incurring a large expense in the three months ended March 31, 2017, which resulted from an equity grant made to our chief executive officer in 2016, which vested over one year, for which there was no similar expense incurred in the three months ended March 31, 2018. Additionally, we had a decrease of 92,000 due to a salary related accrual in 2017 and a decrease of \$86,000 in miscellaneous expenses. These decreases in general and administrative expenses were partially offset by an increase of \$288,000 in legal expenses.

*Financial Expenses.* For the three months ended March 31, 2018, financial expenses increased by 183.1%, or \$282,000, to \$436,000, from \$154,000 during the three months ended March 31, 2017. The increase in financial expenses primarily resulted from an increase of \$433,000 in financial expenses related to the revaluation of the embedded derivative of the Series C Preferred Stock, partially offset by a decrease in interest expenses of \$119,000

due to the repayment of the remaining balance of our outstanding indebtedness of \$1.2 million on March 21, 2017 and a decrease of \$32,000 in miscellaneous expenses.

*Tax Expenses.* For the three months ended March 31, 2018, tax expenses decreased by \$1,000 to \$0, from \$1,000 in the three months ended March 31, 2017.

*Net Loss.* Our net loss decreased by \$170,000, or 6.6%, to \$2,389,000 for the three months ended March 31, 2018, from \$2,559,000 during the three months ended March 31, 2017. The decrease in net loss resulted primarily from a decrease of \$232,000 in operating expenses and an increase of \$219,000 in gross profit, partially offset by an increase of \$282,000 in financial expenses.

## Liquidity and Capital Resources

We had an accumulated deficit as of March 31, 2018, of \$143 million, as well as a net loss of \$2,389,000 and negative operating cash flows. We expect to continue incurring losses and negative cash flows from operations until our products (primarily CGuard EPS) reach commercial profitability. As a result of these expected losses and negative cash flows from operations, along with our current cash position, we only have sufficient resources to fund operations approximately 12 months from the date of the balance sheet of this Quarterly Report on Form 10-Q. Therefore, there is substantial doubt about our ability to continue as a going concern.

Our plans include the continued commercialization of our products and raising capital through the sale of additional equity securities, debt or capital inflows from strategic partnerships. There are no assurances, however, that we will be successful in obtaining the level of financing needed for our operations. If we are unsuccessful in commercializing our products and raising capital, we may need to reduce activities, curtail or cease operations.

On March 14, 2017, we closed a “best efforts” public offering of 1,069,822 shares of Series C Convertible Preferred Stock (the “Series C Preferred Stock”), Series B warrants to purchase 122,269 shares of common stock and Series C warrants to purchase 122,269 shares of common stock. The Series C Warrants expired on September 14, 2017. The Series B warrants have a term of five years and an exercise price of \$70.00 per share of common stock, subject to adjustment as provided in the Series B warrants. We received gross proceeds of approximately \$6.8 million from the offering, before deducting placement agent fees and offering expenses.

On March 1, 2018, we closed an underwritten public offering of 1,000,000 shares of our common stock at a price to the public of \$3.00 per share. We received gross proceeds of approximately \$3.0 million from the offering, before deducting underwriter discounts and commissions and offering expenses payable by us. Upon closing of the offering, we used \$450,000 of the proceeds from the offering to redeem 450 shares of Series D Preferred Stock. As a result of such offering, the conversion price for each of our Series C Preferred Stock and our Series D Preferred Stock was reduced to \$3.00 per share.

On April 2, 2018, we closed an underwritten public offering of 2,857,143 shares of our common stock at a price to the public of \$1.75 per share. We received gross proceeds of approximately \$5.0 million from the offering, before deducting underwriter discounts and commissions and offering expenses payable by us. Upon closing of the offering, we used \$300,000 of the proceeds from the offering to redeem 46,875 shares of our Series C Preferred Stock held by the Series D Investor. As a result of such offering, the conversion price for each of our Series B Preferred Stock, our Series C Preferred Stock and our Series D Preferred Stock was reduced to \$1.75 per share.



Our outstanding shares of Series B Preferred Stock and Series C Preferred Stock contain anti-dilution provisions that may result in the reduction of the conversion price thereof in the future. This feature may result in an indeterminate number of shares of common stock being issued upon conversion of the Series B Preferred Stock or the Series C Preferred Stock. In addition, pursuant to the Series D Purchase Agreement and the certificate of designation for the Series D Preferred Stock, the purchasers of Series D Preferred Stock have the option to exchange their Series D Preferred Stock into the securities issued in a subsequent offering or in a Qualified Offering, and the shares of Series C Preferred Stock held by the purchasers of Series D Preferred Stock will be automatically exchanged into the securities we sell in a Qualified Offering (to the extent that stockholder approval for such exchange of Series C Preferred Stock is not required under the Company Guide). In connection with the Series D Private Placement, the certificate of designation for the Series B Preferred Stock was amended to provide that each share of outstanding Series B Preferred Stock will be automatically exchanged into the securities we sell in a Qualified Offering. Sales of additional shares of common stock issuable upon conversion of the Series B Preferred Stock or Series C Preferred Stock as a result of anti-dilution adjustments or upon automatic exchange into the securities we sell in a Qualified Offering, or upon exchange of the Series D Preferred Stock into securities we sell in a subsequent offering or in a Qualified Offering will dilute the interests of other security holders and may depress the price of our common stock. Accordingly, we may find it more difficult to raise additional equity capital while any of our Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock is outstanding. As of March 31, 2018, 17,303 shares of Series B Preferred Stock, 451,695 shares of Series C Preferred Stock and 300 shares of Series D Preferred Stock were outstanding.

During January and February 2018, the placement agent from the public offering that closed in July 2016 exercised its unit purchase option to purchase 13,508 units and received 13,508 shares of Series B Preferred Stock and Series A warrants to purchase 1,545 shares of common stock. The placement agent subsequently converted its Series B Preferred Stock and received an aggregate of 111,442 shares of common stock. We received an aggregate of \$557,205 from the placement agent for the exercise of the unit purchase option.

*Three months ended March 31, 2018 compared to the three months ended March 31, 2017*

*General.* At March 31, 2018, we had cash and cash equivalents of \$4,637,000, as compared to \$3,710,000 as of December 31, 2017. We have historically met our cash needs through a combination of issuing new shares, borrowing activities and product sales. Our cash requirements are generally for research and development, marketing and sales activities, finance and administrative cost, capital expenditures and general working capital.

For the three months ended March 31, 2018, net cash used in our operating activities decreased by \$978,000 to \$1,780,000, from \$2,758,000 in the same period in 2017. The primary reason for the decrease in cash used in our operating activities was a decrease of payments for third party related expenses and for professional services of \$678,000, (primarily due to the end of term charge of \$520,000 paid to Hercules in the three months ended March 31, 2017, compared to no such payment made in the three months ended March 31, 2018), as well as an increase of \$451,000 in payments received from customers to \$912,000 in the three months ended March 31, 2018, from \$461,000 in the three months ended March 31, 2017. The decreases in cash used in operating activities was partially offset by an increase of \$151,000 in salary payments from \$1,030,000 in the three months ended March 31, 2017 to \$1,181,000 in the same period in 2018.

Cash used by our investing activities was \$12,000 during the three months ended March 31, 2018, resulting primarily from the funding of employee retirement funds, compared to \$156,000 in the three months ended March 31, 2017 resulting primarily from the purchase of production equipment.

Cash provided by financing activities for the three months ended March 31, 2018 was \$2,718,000, compared to \$3,983,000 during the same period in 2017. The principal source of the cash provided by financing activities during the three months ended March 31, 2018, was the funds received from our March 2018 public offering of common stock that resulted in approximately \$2,718,000 of aggregate net proceeds. The principal source of the cash provided by financing activities during the three months ended March 31, 2017 was the funds received from our March 2017 public offering of preferred stock and warrants that resulted in approximately \$6,162,000 of aggregate net proceeds, offset by loan repayments of \$2,179,000 made to Hercules.

As of March 31, 2018, our current assets exceeded our current liabilities by a multiple of 2.1. Current assets increased by \$1,044,000 during the period and current liabilities increased by \$473,000 during the period. As a result, our working capital increased by \$571,000 to \$3,244,000 at March 31, 2018.

### **Off Balance Sheet Arrangements**

We have no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Recent Accounting Pronouncements**

See Note 3 – “Recently Issued Accounting Pronouncements” in the accompanied financial statements.

### **Factors That May Affect Future Operations**

We believe that our future operating results will continue to be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of the ordering patterns of our distributors, timing of regulatory approvals, the implementation of various phases of our clinical trials and manufacturing efficiencies due to the learning curve of utilizing new materials and equipment. Our operating results could also be impacted by a weakening of the Euro and strengthening of the New Israeli Shekel, or NIS, both against the U.S. dollar. Lastly, other economic conditions we cannot foresee may affect customer demand, such as individual country reimbursement policies pertaining to our products. For a discussion of these and other risks that relate to our business, you should carefully review the risks and uncertainties described under the heading “Part II – Item 1A. Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

### **Contractual Obligations and Commitments**

During the three months ended March 31, 2018, there were no material changes to our contractual obligations and commitments.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable

## **Item 4. Controls and Procedures**

### **Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures**

As of March 31, 2018, we conducted an evaluation, under the supervision and participation of management including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of March 31, 2018.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we may be involved in litigation that arises through the normal course of business.

On April 26, 2016, Microbanc, LLC and Todd Spenla of Microbanc, LLC filed suit in the New York State Supreme Court (New York County) against us asserting claims for breach of agreement, quantum meruit, unjust enrichment and fraud and seeking approximately \$2.2 million and 9% of the amount of stock and warrants sold in 2011 and 2012 in alleged damages relating to certain alleged finders' fees that they claim are owed. We removed the suit to federal court and filed a motion to dismiss all claims on June 30, 2016. By Order dated February 23, 2017, the U.S. District

Court for the Southern District of New York granted our motion to dismiss the suit in its entirety. Microbanc, LLC and Todd Spenla had until March 16, 2017, to file a motion for application for leave to replead its claims for breach of contract. On March 16, 2017, Microbanc, LLC filed a motion for leave to file an amended complaint to replead all claims and to substitute Estate of Todd Spenla for the deceased plaintiff, Todd Spenla. We have opposed this motion, which remains pending before the district court. On April 14, 2017, James D. Burchetta filed a motion to intervene as a plaintiff. On April 19, 2017, the court granted our request for an adjournment of this motion to intervene, pending resolution of Microbanc, LLC's motion for leave to file the amended complaint and to substitute the Estate of Todd Spenla for the deceased plaintiff, Todd Spenla. On January 22, 2018, the court denied such motion, and on January 23, 2018, the clerk entered judgment dismissing the complaint consistent with the District court's order. The time for a notice of appeal has expired without an appeal being filed, and the matter is concluded.

On July 12, 2016, Medpace Inc., a former service provider, filed suit with the Court of Common Pleas, Hamilton County, Ohio, against us asserting that we breached a master services agreement with Medpace Inc. by failing to pay Medpace Inc. certain fees purportedly owed to it in connection with Medpace Inc.'s provision of certain clinical development program services to Inspire Ltd. We have removed the suit to the U.S. District Court for the Southern District of Ohio. Since removal, Medpace Inc. has amended its complaint to name InspireMD Ltd., our wholly owned subsidiary, as the only defendant. Medpace Inc. is seeking \$1,967,822 in damages plus interest, costs, attorneys' fees and expenses against InspireMD Ltd. InspireMD Ltd. filed a motion to dismiss all claims on February 10, 2017. On May 17, 2017, the district court denied InspireMD's motion to dismiss, but ordered Medpace Inc. to file a second amended complaint by June 5, 2017. Medpace Inc. filed a second amended complaint on June 5, 2017, and InspireMD Ltd. again moved to dismiss all claims on June 19, 2017. The district court denied our second motion to dismiss on August 11, 2017. Thereafter, we answered the complaint and asserted several counterclaims. Specifically, we brought counterclaims for fraudulent inducement, negligent misrepresentation, and violation of Ohio's Deceptive Trade Practices Act arising from Medpace's false marketing of its purported abilities to manage the clinical trial, and brings a counterclaim for breach of contract, alleging that Medpace breached the master services agreement by, among other things, failing to assign personnel to the clinical trial who were qualified and professionally capable of performing the services called for by the master services agreement and the related Task Order in accordance with the agreed-upon schedule and budget. We are seeking damages believed to be in excess of \$3 million, as well as punitive damages and attorney's fees. Medpace Inc. has denied our allegations. Discovery is ongoing at this time. InspireMD Ltd. intends to contest this matter vigorously. Due to the uncertainties of litigation, however, we can give no assurance that InspireMD Ltd. will prevail on any claims made against InspireMD Ltd. in any such lawsuit. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results.

As of the date of this filing, we are not aware of any other material legal proceedings to which we or any of our subsidiaries is a party or to which any of our property is subject, nor are we aware of any such threatened or pending litigation or any such proceedings known to be contemplated by governmental authorities other than other than the foregoing suits filed by Medpace Inc.

We are not aware of any material proceedings in which any of our directors, officers or affiliates or any registered or beneficial stockholder of more than 5% of our common stock, or any associate of any of the foregoing, is a party adverse to or has a material interest adverse to, us or any of our subsidiaries.

## Item 1A. Risk Factors

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with our business previously disclosed in Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2017, under the heading “Risk Factors.” Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-Q. The following information should be read in conjunction with the condensed consolidated financial statements and related notes in Part I, Item 1, “Financial Statements” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q.

### Risks Related to Our Business

*We have a history of net losses and may experience future losses.*

We have yet to establish any history of profitable operations. We reported a net loss of \$8.4 million for the fiscal year ended December 31, 2017, and had a net loss of approximately \$8.5 million during the fiscal year ended December 31, 2016. As of March 31, 2018, we had an accumulated deficit of \$143 million. We expect to incur additional operating losses for the foreseeable future. There can be no assurance that we will be able to achieve sufficient revenues throughout the year or be profitable in the future.

*The report of our independent registered public accounting firm contains an explanatory paragraph as to our ability to continue as a going concern, which could prevent us from obtaining new financing on reasonable terms or at all.*

Because we have had recurring losses and negative cash flows from operating activities, substantial doubt exists regarding our ability to remain as a going concern at the same level at which we are currently performing. Accordingly, the report of Kesselman & Kesselman, our independent registered public accounting firm, with respect to our financial statements for the year ended December 31, 2017, includes an explanatory paragraph as to our



potential inability to continue as a going concern. The doubts regarding our potential ability to continue as a going concern may adversely affect our ability to obtain new financing on reasonable terms or at all.

***We will need to raise additional capital to meet our business requirements in the future, and such capital raising may be costly or difficult to obtain and could dilute our stockholders' ownership interests.***

Without materially curtailing our operations, we estimate that we only have sufficient capital to finance our operations approximately 12 months from the date of the balance sheet. As such, in order for us to pursue our business objectives, we will need to raise additional capital, which additional capital may not be available on reasonable terms or at all. For instance, we will need to raise additional funds to accomplish the following:

development of our current and future products, including CGuard EPS with a smaller delivery catheter;

furthering our efforts to obtain an IDE approval for CGuard EPS, to ultimately seek the U.S. Food and Drug Administration approval for commercial sales in the United States;

pursuing growth opportunities, including more rapid expansion and funding regional distribution systems;

making capital improvements to improve our infrastructure;

hiring and retaining qualified management and key employees;

responding to competitive pressures;

complying with regulatory requirements such as licensing and registration; and

maintaining compliance with applicable laws.

Any additional capital raised through the sale of equity or equity-backed securities may dilute our stockholders' ownership percentages and could also result in a decrease in the market value of our equity securities. See "*Risk Factors—Risks Related to Our Common Stock, Preferred Stock and Warrants—The respective certificate of designation for the Series B Preferred Stock and the Series C Preferred Stock and the Series D Purchase Agreement contains anti-dilution provisions that may result in the reduction of the conversion price in the future. This feature may result in an indeterminate number of shares of common stock being issued upon conversion of the Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock. Sales of these shares will dilute the interests of other security holders and may depress the price of our common stock.*"

The terms of any securities issued by us in future capital transactions may be more favorable to new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of our securities then outstanding.

Furthermore, any additional debt or equity financing that we may need may not be available on terms favorable to us, or at all. In connection with the Series D Private Placement that closed in December 1, 2017, we entered into the Series D Purchase Agreement, as amended, pursuant to which we agreed, among other things, to refrain from entering into certain variable rate transactions until June 1, 2018. In addition, in connection with the Series D Private Placement, the certificate of designation for the Series B Preferred Stock was amended to provide that each share of outstanding Series B Preferred Stock will be automatically exchanged into the securities we sell in a Qualified Offering. The Series D Purchase Agreement, as amended, also require us (i) to use 15% of the proceeds from any subsequent offering of our securities that is not a Qualified Offering to redeem a portion of our outstanding shares of the Series C Preferred Stock held by the Series D Investor, and (ii) upon closing of any subsequent offering that is a Qualified Offering, to exchange all remaining outstanding shares of Series C Preferred Stock held by the Series D Investor for any securities issued in such Qualified Offering. In the event that we fail, or are unable, to issue securities issued in the Qualified Offering to the Series D Investor in exchange for such investor's remaining Series C Preferred Stock due to limitations mandated by the NYSE American, the Securities and Exchange Commission, or for any other reason, we are required to offer to purchase from such investor those shares of Series C Preferred Stock not exchanged for the securities sold in the Qualified Offering. The holders of our Series D Preferred Stock also have the option to exchange their Series D Preferred Stock into the securities issued in a subsequent offering or into the securities we sell in a Qualified Offering upon consummation of a Qualified Offering. Furthermore, the certificate of designation for our Series B Preferred Stock and Series C Preferred Stock contains a full ratchet anti-dilution price protection to be triggered upon issuance of equity or equity-linked securities at an effective common stock purchase price of less than

the conversion price in effect. Such obligations may make any additional financing difficult to obtain or unavailable to us while any shares of our Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock are outstanding. If we are unable to obtain additional financing on a timely basis, we may have to curtail our development activities and growth plans and/or be forced to sell assets, perhaps on unfavorable terms, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately could be forced to discontinue our operations and liquidate, in which event it is unlikely that stockholders would receive any distribution on their shares. Further, we may not be able to continue operating if we do not generate sufficient revenues from operations needed to stay in business.

In addition, we may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we issue, such as convertible notes and warrants, which may adversely impact our financial condition. If we do not have a sufficient number of available shares for any Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock conversions or upon exchange of Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, we will be required to increase our authorized shares, which may not be possible and will be time consuming and expensive.

***Our products may in the future be subject to product notifications, recalls, or voluntary market withdrawals that could harm our reputation, business and financial results.***

The manufacturing and marketing of medical devices involves an inherent risk that our products may prove to be defective and cause a health risk even after regulatory clearances have been obtained. Medical devices may also be modified after regulatory clearance is obtained to such an extent that additional regulatory clearance is necessary before the device can be further marketed. In these events, we may voluntarily implement a recall or market withdrawal or may be required to do so by a regulatory authority.

In the European Economic Area, we must comply with the EU Medical Device Vigilance System. Under this system, manufacturers are required to take Field Safety Corrective Actions (“FSCAs”) to reduce a risk of death or serious deterioration in the state of health associated with the use of a medical device that is already placed on the market. A FSCA may include the recall, modification, exchange, destruction or retrofitting of the device. FSCAs must be communicated by the manufacturer or its legal representative to its customers and/or to the end users of the device through Field Safety Notices.

Any adverse event involving our products could result in other future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection or enforcement action. Adverse events have been reported to us in the past, and we cannot guarantee that they will not occur in the future. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, would require the dedication of our time and capital, distract management from operating our business and could harm our reputation and financial results.

***We expect to derive our revenue from sales of our CGuard EPS and MGuard Prime EPS stent products and other products we may develop, such as CGuard EPS with a smaller delivery catheter. If we fail to generate revenue from these sources, our results of operations and the value of our business would be materially and adversely affected.***

We expect our revenue to be generated from sales of our CGuard EPS and MGuard Prime EPS stent products and other products we may develop. Future sales of CGuard EPS will be subject to the receipt of regulatory approvals and commercial and market uncertainties that may be outside our control. In addition, sales of MGuard Prime EPS have been hampered by weakened demand for bare metal stents, which may never improve, and we may not be successful in developing a drug-eluting stent product. In addition, there may be insufficient demand for other products we are seeking to develop, such as CGuard EPS with a smaller delivery catheter. If we fail to generate expected revenues from these products, our results of operations and the value of our business and securities would be materially and adversely affected.

***If we are unable to obtain and maintain intellectual property protection covering our products, others may be able to make, use or sell our products, which would adversely affect our revenue.***

Our ability to protect our products from unauthorized or infringing use by third parties depends substantially on our ability to obtain and maintain valid and enforceable patents. Similarly, the ability to protect our trademark rights might be important to prevent third party counterfeiters from selling poor quality goods using our designated trademarks/trade names. Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering medical devices and pharmaceutical inventions and the scope of claims made under these patents, our ability to enforce patents is uncertain and involves complex legal and factual questions. Accordingly, rights under any of our pending patent applications and patents may not provide us with commercially meaningful protection for our products or may not afford a commercial advantage against our competitors or their competitive products or processes. In addition, patents may not be issued from any pending or future patent applications owned by or licensed to us, and moreover, patents that may be issued to us now or in the future may not be valid or enforceable. Further, even if valid and enforceable, our patents may not be sufficiently broad to prevent others from marketing products like ours, despite our patent rights.

The validity of our patent claims depends, in part, on whether prior art references exist that describe or render obvious our inventions as of the filing date of our patent applications. We may not have identified all prior art, such as U.S. and foreign patents or published applications or published scientific literature, that could adversely affect the patentability of our pending patent applications. For example, some material references may be in a foreign language and may not be uncovered during examination of our patent applications. Additionally, patent applications in the United States are maintained in confidence for up to 18 months after their filing. In some cases, however, patent applications remain confidential in the U.S. Patent and Trademark Office for the entire time prior to issuance as a U.S. patent. Patent applications filed in countries outside the U.S. are not typically published until at least 18 months from their first filing date. Similarly, publication of discoveries in the scientific or patent literature often lags behind actual discoveries. Therefore, we cannot be certain that we were the first to invent, or the first to file patent applications relating to, our stent technologies. In the event that a third party has also filed a U.S. patent application covering our stents or a similar invention, we may have to participate in an adversarial proceeding, known as an interference, declared by the U.S. Patent and Trademark Office to determine priority of invention in the United States. It is possible that we may be unsuccessful in the interference, resulting in a loss of some portion or all of our position in the United States.

In addition, statutory differences in patentable subject matter depending on the jurisdiction may limit the protection we obtain on certain of the technologies we develop. The laws of some foreign jurisdictions do not offer the same protection to, or may make it more difficult to effect the enforcement of, proprietary rights as in the United States, risk that may be exacerbated if we move our manufacturing to certain countries in Asia. If we encounter such difficulties or are otherwise precluded from effectively protecting our intellectual property rights in any foreign jurisdictions, our business prospects could be substantially harmed.

We may initiate litigation to enforce our patent rights on any patents issued on pending patent applications, which may prompt adversaries in such litigation to challenge the validity, scope, ownership, or enforceability of our patents. Third parties can sometimes bring challenges against a patent holder to resolve these issues, as well. If a court decides that any such patents are not valid, not enforceable, not wholly owned by us, or are of a limited scope, we may not have the right to stop others from using our inventions. Also, even if our patent rights are determined by a court to be valid and enforceable, they may not be sufficiently broad to prevent others from marketing products similar to ours or designing around our patents, despite our patent rights, nor do they provide us with freedom to operate unimpeded by the patent and other intellectual property rights of others that may cover our products. We may be forced into litigation to uphold the validity of the claims in our patent portfolio, as well as our ownership rights to such intellectual property, and litigation is often an uncertain and costly process.

We also rely on trade secret protection to protect our interests in proprietary know-how and for processes for which patents are difficult to obtain or enforce. We may not be able to protect our trade secrets adequately. In addition, we rely on non-disclosure and confidentiality agreements with employees, consultants and other parties to protect, in part, trade secrets and other proprietary technology. These agreements may be breached and we may not have adequate remedies for any breach. Moreover, others may independently develop equivalent proprietary information, and third parties may otherwise gain access to our trade secrets and proprietary knowledge. Any disclosure of confidential data into the public domain or to third parties could allow competitors to learn our trade secrets and use the information in competition against us.

***If our manufacturing facilities are unable to provide an adequate supply of products, our growth could be limited and our business could be harmed.***

We currently manufacture our MGuard Prime EPS and CGuard EPS products at our facility in Tel Aviv, Israel. If there were a disruption to our existing manufacturing facility, we would have no other means of manufacturing our MGuard Prime EPS or CGuard EPS stents until we were able to restore the manufacturing capability at our facility or develop alternative manufacturing facilities. If we were unable to produce sufficient quantities of our MGuard Prime EPS or CGuard EPS stents to meet market demand or for use in our current and planned clinical trials, or if our manufacturing process yields substandard stents, our development and commercialization efforts would be delayed.

Additionally, any damage to or destruction of our Tel Aviv facility or its equipment, prolonged power outage or contamination at our facility would significantly impair our ability to produce either MGuard Prime EPS or CGuard EPS stents.

Finally, the production of our stents must occur in a highly controlled, clean environment to minimize particles and other yield and quality-limiting contaminants. In spite of stringent quality controls, weaknesses in process control or minute impurities in materials may cause a substantial percentage of defective products in a lot. If we are unable to maintain stringent quality controls, or if contamination problems arise, our clinical development and commercialization efforts could be delayed, which would harm our business and results of operations.

***Pre-clinical and clinical trials will be lengthy and expensive, and any delay or failure of clinical trials could prevent us from commercializing our MicroNet products, which would materially and adversely affect our results of operations and the value of our business.***

As part of the regulatory process, we must conduct clinical trials for each product candidate to demonstrate safety and efficacy to the satisfaction of the regulatory authorities, including, if we seek in the future to sell our products in the United States, the U.S. Food and Drug Administration. Clinical trials are subject to rigorous regulatory requirements and are expensive and time-consuming to design and implement. They require the enrollment of a large number of patients, and suitable patients may be difficult to identify and recruit, which may cause a delay in the development and commercialization of our product candidates. In some trials, a greater number of patients and a longer follow-up period may be required. Patient enrollment in clinical trials and the ability to successfully complete patient follow-up depends on many factors, including the size of the patient population, the nature of the trial protocol, the proximity of patients to clinical sites, the eligibility criteria for the clinical trial and patient compliance. For example, patients may be discouraged from enrolling in our clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures or follow-up to assess the safety and efficacy of our products, or they may be persuaded to participate in contemporaneous clinical trials of competitive products. In addition, patients participating in our clinical trials may die before completion of the trial or suffer adverse medical events unrelated to or related to our products. Delays in patient enrollment or failure of patients to continue to participate in a clinical trial may cause an increase in costs and delays or result in the failure of the clinical trial.

In addition, the length of time required to complete clinical trials for pharmaceutical and medical device products varies substantially according to the degree of regulation and the type, complexity, novelty and intended use of a product, and can continue for several years and cost millions of dollars. The commencement and completion of clinical trials for our existing products and those under development may be delayed by many factors, including governmental or regulatory delays and changes in regulatory requirements, policy and guidelines or our inability or the inability of any potential licensee to manufacture or obtain from third parties materials sufficient for use in preclinical studies and clinical trials. In addition, market demand may change for products being tested due to the length of time needed to complete requisite clinical trials.



***Physicians may not widely adopt our products unless they determine, based on experience, long-term clinical data and published peer reviewed journal articles, that the use of our stents provides a safe and effective alternative to other existing treatments for coronary artery disease and carotid artery disease.***

We believe that physicians will not widely adopt our products unless they determine, based on experience, long-term clinical data and published peer reviewed journal articles, that the use of our products provide a safe and effective alternative to other existing treatments for the conditions we are seeking to address.

If we fail to demonstrate safety and efficacy that is at least comparable to existing and future therapies available on the market, our ability to successfully market our products will be significantly limited. Even if the data collected from clinical studies or clinical experience indicate positive results, each physician's actual experience with our products will vary. Clinical trials conducted with our products may involve procedures performed by physicians who are technically proficient and are high-volume stent users of such products. Consequently, both short-term and long-term results reported in these clinical trials may be significantly more favorable than typical results of practicing physicians, which could negatively affect rates of adoptions of our products. We also believe that published peer-reviewed journal articles and recommendations and support by influential physicians regarding our products will be important for market acceptance and adoption, and we cannot assure you that we will receive these recommendations and support, or that supportive articles will be published.

***Physicians currently consider drug-eluting stents to be the industry standard for treatment of coronary artery disease. None of our current coronary products is a drug-eluting stent, and this may adversely affect our business.***

Our ability to attract customers depends to a large extent on our ability to provide goods that meet the customers' and the market's demands and expectations. If we do not have a product that is expected by the market, we may lose customers. The market demand has shifted away from bare metal stents in favor of drug-eluting stents. Our MGuard Prime EPS is a bare-metal stent product and has experienced a substantial reduction in sales over the past three years. Such sales may never recover and we do not currently have the resources to develop a drug-eluting stent product. Our failure to provide industry standard devices could adversely affect our business, financial condition and results of operations.

***Our products are based on a new technology, and we have only limited experience in regulatory affairs, which may affect our ability or the time required to navigate complex regulatory requirements and obtain necessary regulatory approvals, if such approvals are received at all. Regulatory delays or denials may increase our costs, cause us to lose revenue and materially and adversely affect our results of operations and the value of our business.***

Because our products are new and long-term success measures have not been completely validated, regulatory agencies may take a significant amount of time in evaluating product approval applications. Treatments may exhibit a favorable measure using one metric and an unfavorable measure using another metric. Any change in accepted metrics may result in reconfiguration of, and delays in, our clinical trials. Additionally, we have only limited experience in filing and prosecuting the applications necessary to gain regulatory approvals, and our clinical, regulatory and quality assurance personnel are currently composed of only four employees. As a result, we may experience delays in connection with obtaining regulatory approvals for our products.

In addition, the products we and any potential licensees license, develop, manufacture and market are subject to complex regulatory requirements, particularly in the United States, Europe and Asia, which can be costly and time-consuming. There can be no assurance that such approvals will be granted on a timely basis, if at all. Furthermore, there can be no assurance of continued compliance with all regulatory requirements necessary for the manufacture, marketing and sale of the products we will offer in each market where such products are expected to be sold, or that products we have commercialized will continue to comply with applicable regulatory requirements. If a government regulatory agency were to conclude that we were not in compliance with applicable laws or regulations, the agency could institute proceedings to detain or seize our products, issue a recall, impose operating restrictions, enjoin future violations and assess civil and criminal penalties against us, our officers or employees and could recommend criminal prosecution. Furthermore, regulators may proceed to ban, or request the recall, repair, replacement or refund of the cost of, any device manufactured or sold by us. Furthermore, there can be no assurance that all necessary regulatory approvals will be obtained for the manufacture, marketing and sale in any market of any new product developed or that any potential licensee will develop using our licensed technology.

***Even if our products are approved by regulatory authorities, if we or our suppliers fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.***

Any regulatory approvals that we receive for our products will require surveillance to monitor the safety and efficacy of the product and may require us to conduct post-approval clinical studies. In addition, if a regulatory authority approves our products, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion, import, export and recordkeeping for our products will be subject to extensive and ongoing regulatory requirements.

Moreover, if we obtain regulatory approval for any of our products, we will only be permitted to market our products for the indication approved by the regulatory authority, and such approval may involve limitations on the indicated uses or promotional claims we may make for our products. In addition, later discovery of previously unknown problems with our products, including adverse events of unanticipated severity or frequency, or with our suppliers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

restrictions on the marketing or manufacturing of our product candidates, withdrawal of the product from the market, or voluntary or mandatory product recalls;

fines, warning letters, or untitled letters;

holds on clinical trials;

refusal by the regulatory authority to approve pending applications or supplements to approved applications filed by us or suspension or revocation of license approvals;

product seizure or detention, or refusal to permit the import or export of our product candidates; and

injunctions, the imposition of civil penalties or criminal prosecution.

The applicable regulatory authorities' policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our products. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability.

Further, healthcare laws and regulations may change significantly in the future. Any new healthcare laws or regulations may adversely affect our business. A review of our business by courts or regulatory authorities may result in a determination that could adversely affect our operations. In addition, the healthcare regulatory environment may change in a way that restricts our operations.

***We are subject to federal, state and foreign healthcare laws and regulations and implementation of or changes to such healthcare laws and regulations could adversely affect our business and results of operations.***

In both the United States and certain foreign jurisdictions, there are laws and regulations specific to the healthcare industry which may affect all aspects of our business, including development, testing, marketing, sales, pricing, and reimbursement. Additionally, there have been a number of legislative and regulatory proposals in recent years to change the healthcare system in ways that could impact our ability to sell our products. If we are found to be in violation of any of these laws or any other federal or state regulations, we may be subject to administrative, civil and/or criminal penalties, damages, fines, individual imprisonment, exclusion from federal health care programs and the restructuring of our operations. Any of these could have a material adverse effect on our business and financial results. Since many of these laws have not been fully interpreted by the courts, there is an increased risk that we may be found in violation of one or more of their provisions. Any action against us for violation of these laws, even if we ultimately are successful in our defense, will cause us to incur significant legal expenses and divert our management's attention away from the operation of our business.

***We may be subject, directly or indirectly, to applicable U.S. federal and state anti-kickback, false claims laws, physician payment transparency laws, fraud and abuse laws or similar healthcare and security laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.***

Healthcare providers, physicians and others will play a primary role in the recommendation, ordering and utilization of any products for which we obtain regulatory approval. If we obtain U.S. Food & Drug Administration approval for any of our products and begin commercializing those products in the United States, our operations may be subject to various federal and state fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute, the federal False Claims Act, and physician payment sunshine laws and regulations. These laws may impact, among other things, our potential sales, marketing and education programs. In addition, we may be subject to patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

the federal Anti-Kickback Statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce, or in return for, either the referral of an individual, or the purchase, lease, order or recommendation of any good, facility, item or service for which payment may be made, in whole or in part, under a federal healthcare program, such as the Medicare and Medicaid programs;

federal civil and criminal false claims laws and civil monetary penalty laws, including the False Claims Act, which may be pursued through civil whistleblower or qui tam actions, impose criminal and civil penalties against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment or approval from Medicare, Medicaid or other third-party payors that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;

federal criminal statutes created through the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), which prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters;

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009 and their respective implementing regulations, which imposes requirements on certain covered healthcare providers, health plans, and healthcare clearinghouses as well as their respective business associates that perform services for them that involve the use, or disclosure of, individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information;

the federal transparency requirements under The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, enacted into law in the United States in March 2010 (known collectively as the “Affordable Care Act”), including the provision commonly referred to as the Physician Payments Sunshine Act, which requires manufacturers of drugs, biologics, devices and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program to report annually to the U.S. Department of Health and Human Services information related to payments or other transfers of value made to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and

federal consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers.

Additionally, we may be subject to state and non-U.S. equivalents of each of the healthcare laws described above, among others, some of which may be broader in scope and may apply regardless of the payor. Many U.S. states have adopted laws similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare services reimbursed by any source, not just governmental payors, including private insurers. Several states impose marketing restrictions or require medical device companies to make marketing or price disclosures to the state. There are ambiguities as to what is required to comply with these state requirements and if we fail to comply with an applicable state law requirement we could be subject to penalties.

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available, it is possible that some of our future business activities could be subject to challenge under one or more of such laws. In addition, recent health care reform legislation has strengthened these laws. For example, the Affordable Care Act, among other things, amends the intent requirement of the federal Anti-Kickback and criminal healthcare fraud statutes. As a result of such amendment, a person or entity no longer needs to have actual knowledge of these statutes or specific intent to violate them in order to have committed a violation. Moreover, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act.

Violations of fraud and abuse laws may be punishable by criminal and/or civil sanctions, including penalties, fines and/or exclusion or suspension from federal and state healthcare programs such as Medicare and Medicaid and debarment from contracting with the U.S. government. In addition, private individuals have the ability to bring actions on behalf of the U.S. government under the False Claims Act as well as under the false claims laws of several states.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, disgorgement, monetary fines, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations. In addition, the approval and commercialization of any of our products outside the United States will also likely subject us to non-U.S. equivalents of the healthcare laws mentioned above, among other non-U.S. laws.

If any of the physicians or other providers or entities with whom we expect to do business with are found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs. This could adversely affect our ability to operate our business and our results of operations.

***Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing our products in such jurisdictions.***

We market our products in international markets. In order to market our products in other foreign jurisdictions, we must obtain separate regulatory approvals from those obtained in the United States and Europe. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain CE mark or U.S. Food and Drug Administration approval. Foreign regulatory



approval processes may include all of the risks associated with obtaining CE mark or U.S. Food and Drug Administration approval in addition to other risks. We may not obtain foreign regulatory approvals on a timely basis, if at all. CE mark approval or any future U.S. Food and Drug Administration approval does not ensure approval by regulatory authorities in other countries. We may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in certain markets.

***We operate in an intensely competitive and rapidly changing business environment, and there is a substantial risk our products could become obsolete or uncompetitive.***

The medical device market is highly competitive. We compete with many medical device companies globally in connection with our current products and products under development. We face competition from numerous pharmaceutical and biotechnology companies in the therapeutics area, as well as competition from academic institutions, government agencies and research institutions. We face intense competition from Boston Scientific Corporation, Guidant Corporation, Medtronic, Inc., Abbott Vascular Devices, Johnson & Johnson, Terumo Corporation, Covidien Ltd., Cordis Corporation (currently part of Cardinal Health, Inc.) and others. Most of our current and potential competitors, including but not limited to those listed above, have, and will continue to have, substantially greater financial, technological, research and development, regulatory and clinical, manufacturing, marketing and sales, distribution and personnel resources than we do. There can be no assurance that we will have sufficient resources to successfully commercialize our products, if and when they are approved for sale. The worldwide market for stent products is characterized by intensive development efforts and rapidly advancing technology. Our future success will depend largely upon our ability to anticipate and keep pace with those developments and advances. Current or future competitors could develop alternative technologies, products or materials that are more effective, easier to use or more economical than what we or any potential licensee develop. If our technologies or products become obsolete or uncompetitive, our related product sales and licensing revenue would decrease. This would have a material adverse effect on our business, financial condition and results of operations.

***We may become subject to claims by much larger and better capitalized competitors seeking to invalidate our intellectual property or our rights thereto.***

Based on the prolific litigation that has occurred in the stent industry and the fact that we may pose a competitive threat to some large and well-capitalized companies that own or control patents relating to stents and their use, manufacture and delivery, we believe that it is possible that one or more third parties will assert a patent infringement claim against the manufacture, use or sale of our stents based on one or more of these patents. These companies also own patents relating to the use of drugs to treat restenosis, stent architecture, catheters to deliver stents, and stent manufacturing and coating processes and compositions, as well as general delivery mechanism patents like rapid exchange that might be alleged to cover one or more of our products. A number of stent-related patents are owned by very large and well-capitalized companies that are active participants in the stent market. In addition, it is possible that a lawsuit asserting patent infringement, misappropriation of intellectual property, or related claims may have already been filed against us of which we are not aware. As the number of competitors in the stent market grows and as the geographies in which we commercially market grow in number and scope, the possibility of patent infringement by us, and/or a patent infringement or misappropriation claim against us, increases.

Our competitors have maintained their position in the market by, among other things, establishing intellectual property rights relating to their products and enforcing these rights aggressively against their competitors and new entrants into the market. All of the major companies in the stent and related markets, including Boston Scientific Corporation, C.R. Bard, Inc., W.L. Gore & Associates, Inc. and Medtronic, Inc., have been repeatedly involved in patent litigation relating to stents since at least 1997. The stent and related markets have experienced rapid technological change and obsolescence in the past, and our competitors have strong incentives to stop or delay the introduction of new products and technologies. We may pose a competitive threat to many of the companies in the stent and related markets. Accordingly, many of these companies will have a strong incentive to take steps, through patent litigation or otherwise, to prevent us from commercializing our products. Such litigation or claims would divert attention and resources away from the development and/or commercialization of our products and product development, and could result in an adverse court judgment that would make it impossible or impractical to sell our products in one or more territories.

***If we fail to maintain or establish satisfactory agreements or arrangements with suppliers or if we experience an interruption of the supply of materials from suppliers, we may not be able to obtain materials that are necessary to develop our products.***

We depend on outside suppliers for certain raw materials. These raw materials or components may not always be available at our standards or on acceptable terms, if at all, and we may be unable to locate alternative suppliers or produce necessary materials or components on our own.

Some of the components of our products are currently provided by only one vendor, or a single-source supplier. For MGuard Prime EPS and CGuard EPS, we depend on MeKo Laserstrahl-Materialbearbeitung for the laser cutting of the stent, Natec Medical Ltd. for the supply of catheters, and Biogeneral Inc. for the fiber. We may have difficulty obtaining similar components from other suppliers that are acceptable to the U.S. Food and Drug Administration or foreign regulatory authorities if it becomes necessary.

If we have to switch to a replacement supplier, we will face additional regulatory delays and the interruption of the manufacture and delivery of our stents for an extended period of time, which would delay completion of our clinical trials or commercialization of our products. In addition, we will be required to obtain prior regulatory approval from the U.S. Food and Drug Administration or foreign regulatory authorities to use different suppliers or components that may not be as safe or as effective. As a result, regulatory approval of our products may not be received on a timely basis or at all.

***We may be exposed to product liability claims and insurance may not be sufficient to cover these claims.***

We may be exposed to product liability claims based on the use of any of our products, or products incorporating our licensed technology, in the market or clinical trials. We may also be exposed to product liability claims based on the sale of any products under development following the receipt of regulatory approval. Product liability claims could be asserted directly by consumers, health-care providers or others. We have obtained product liability insurance coverage; however such insurance may not provide full coverage for our future clinical trials, products to be sold, and other aspects of our business. Insurance coverage is becoming increasingly expensive and we may not be able to maintain current coverage, or expand our insurance coverage to include future clinical trials or the sale of new products or existing products in new territories, at a reasonable cost or in sufficient amounts to protect against losses due to product liability or at all. A successful product liability claim or series of claims brought against us could result in judgments, fines, damages and liabilities that could have a material adverse effect on our business, financial condition and results of operations. We may incur significant expense investigating and defending these claims, even if they do not result in liability. Moreover, even if no judgments, fines, damages or liabilities are imposed on us, our reputation could suffer, which could have a material adverse effect on our business, financial condition and results of operations.

***We face risks associated with litigation and claims.***

We may, in the future, be involved in one or more lawsuits, claims or other proceedings. These suits could concern issues including contract disputes, employment actions, employee benefits, taxes, environmental, health and safety, fraud and abuse, personal injury and product liability matters.

We are subject to a lawsuit filed by Medpace Inc. in July 2016, seeking \$1,967,822 in damages plus interest, costs, attorneys' fees and expenses. See "Business — Legal Proceedings" for more information. While we believe that the claims in this suit are without merit, due to the uncertainties of litigation, however, we can give no assurance that we will prevail on the claims made against us in such lawsuit. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. Adverse outcomes in some or all of these claims may result in significant monetary damages that could adversely affect our ability to conduct our business.

***The loss of key members of our senior management team or our inability to attract and retain highly skilled scientists and laboratory and field personnel could adversely affect our business.***

We depend on the skills, experience and performance of our senior management and research personnel. The efforts of each of these persons will be critical to us as we continue to further develop our products, increase sales and

broaden our product offerings. If we were to lose one or more of these key employees, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategies. Our research and development programs and commercial laboratory operations depend on our ability to attract and retain highly skilled scientists and technicians. We may not be able to attract or retain qualified scientists and technicians in the future due to the intense competition for qualified personnel among life science businesses. There can be no assurance that we will be able to attract and retain necessary personnel on acceptable terms given the intense competition among medical device, biotechnology, pharmaceutical and healthcare companies, universities and non-profit research institutions for experienced management, scientists, researchers, sales and marketing and manufacturing personnel. If we are unable to attract, retain and motivate our key personnel to accomplish our business objectives, we may experience constraints that will adversely affect our ability to support our operations, and our results of operations may be materially and adversely affected.

*We are an international business, and we are exposed to various global and local risks that could have a material adverse effect on our financial condition and results of operations.*

We operate globally and develop and market products in multiple countries. Consequently, we face complex legal and regulatory requirements in multiple jurisdictions, which may expose us to certain financial and other risks. International sales and operations are subject to a variety of risks, including:

foreign currency exchange rate fluctuations;

greater difficulty in staffing and managing foreign operations;

greater risk of uncollectible accounts;

longer collection cycles;

logistical and communications challenges;

potential adverse changes in laws and regulatory practices, including export license requirements, trade barriers, tariffs and tax laws;

changes in labor conditions;

burdens and costs of compliance with a variety of foreign laws;

political and economic instability;

the escalation of hostilities in Israel, which could impair our ability to manufacture our products;

increases in duties and taxation;

foreign tax laws and potential increased costs associated with overlapping tax structures;

greater difficulty in protecting intellectual property;

the risk of third party disputes over ownership of intellectual property and infringement of third party intellectual property by our products; and

general economic and political conditions in these foreign markets.

International markets are also affected by economic pressure to contain reimbursement levels and healthcare costs. Profitability from international operations may be limited by risks and uncertainties related to regional economic conditions, regulatory and reimbursement approvals, competing products, infrastructure development, intellectual property rights protection and our ability to implement our overall business strategy. We expect these risks will

increase as we pursue our strategy to expand operations into new geographic markets. We may not succeed in developing and implementing effective policies and strategies in each location where we conduct business. Any failure to do so may harm our business, results of operations and financial condition.

***If we fail to obtain an adequate level of reimbursement for our products by third party payors, there may be no commercially viable markets for our products or the markets may be much smaller than expected.***

The availability and levels of reimbursement by governmental and other third party payors affect the market for our products. The efficacy, safety, performance and cost-effectiveness of our products and of any competing products will determine the availability and level of reimbursement. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored healthcare and private insurance. To obtain reimbursement or pricing approval in some countries, we may be required to produce clinical data, which may involve one or more clinical trials, that compares the cost-effectiveness of our products to other available therapies. We may not obtain international reimbursement or pricing approvals in a timely manner, if at all. Our failure to receive international reimbursement or pricing approvals would negatively impact market acceptance of our products in the international markets in which those approvals are sought.

We believe that future reimbursement may be subject to increased restrictions both in the U.S. and in international markets. There is increasing pressure by governments worldwide to contain health care costs by limiting both the coverage and the level of reimbursement for therapeutic products and by refusing, in some cases, to provide any coverage for products that have not been approved by the relevant regulatory agency. Future legislation, regulation or reimbursement policies of third party payors may adversely affect the demand for our products and limit our ability to sell our products on a profitable basis. In addition, third party payors continually attempt to contain or reduce the costs of healthcare by challenging the prices charged for healthcare products and services. If reimbursement for our products is unavailable or limited in scope or amount or if pricing is set at unsatisfactory levels, market acceptance of our products would be impaired and future revenues, if any, would be adversely affected.

***In the United States and in the European Union, our business could be significantly and adversely affected by healthcare reform legislation and other administration and legislative proposals.***

The Affordable Care Act, enacted into law in the United States in March 2010, contains certain provisions which are not yet fully implemented and for which it is unclear what the full impact will be from the legislation. The legislation levies a 2.3% excise tax on all sales of any U.S. medical device listed with the U.S. Food and Drug Administration under Section 510(j) of the Federal Food, Drug, and Cosmetic Act and 21 C.F.R. Part 807 on or after January 1, 2013, unless the device falls within an exemption from the tax, such as the exemption governing direct retail sale of devices to consumers or for foreign sales of these devices. The tax has not been applied yet as it is subject to a moratorium. If we commence sales of our MGuard Prime EPS or CGuard EPS stent in the United States, this tax may materially and adversely affect our business and results of operations. The legislation also focuses on a number of provisions aimed at improving quality, broadening access to health insurance, enhancing remedies for fraud and abuse, adding transparency requirements, and decreasing healthcare costs, among others. Uncertainties remain regarding what negative unintended consequences these provisions will have on patient access to new technologies, pricing and the market for our products, and the healthcare industry in general. The Affordable Care Act includes provisions affecting the Medicare program, such as value-based payment programs, increased funding of comparative effectiveness research, reduced hospital payments for avoidable readmissions and hospital acquired conditions, and pilot programs to evaluate alternative payment methodologies that promote care coordination (such as bundled physician and hospital payments). Additionally, the provisions include a reduction in the annual rate of inflation for hospitals which started in 2011 and the establishment of an independent payment advisory board to recommend ways of reducing the rate of growth in Medicare spending. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. Judicial challenges as well as legislative initiatives to modify, limit, or repeal the Affordable Care Act have been initiated and continue to evolve, including an Executive Order signed by the U.S. President directing executive departments and federal agencies to waive, defer, grant exemptions from, or delay the implementation of provisions of the Affordable Care Act that would impose a fiscal or regulatory burden on individuals and certain entities to the maximum extent permitted by law. Recently, there have been renewed efforts to repeal or replace the Affordable Care Act following the 2017 changes in the U.S. presidential administrations and U.S. Congress. We cannot predict what healthcare programs and regulations will be implemented or changed at the federal or state level in the United States, or the effect of any future legislation or regulation. However, any changes that lower reimbursements for our products or reduce medical procedure volumes could adversely affect our business plan to introduce our products in the United States.



On September 26, 2012, the European Commission adopted a package of legislative proposals designed to replace the existing regulatory framework governing medical devices in the European Union. These proposals are currently being reviewed by the European Parliament and the Council and may undergo significant amendments as part of the legislative process. If adopted by the European Parliament and the Council in their present form, these proposed revisions would, among other things, impose stricter requirements on medical device manufacturers and strengthen the supervising competences of the competent authorities of European Union Member States and the notified bodies. As a result, if and when adopted, the proposed new legislation could prevent or delay the CE marking of our products under development or impact our ability to modify our currently CE marked products on a timely basis. The regulation of advanced therapy medicinal products is also in continued development in the European Union, with the European Medicines Agency publishing new clinical or safety guidelines concerning advanced therapy medicinal products on a regular basis. Any of these regulatory changes and events could limit our ability to form collaborations and our ability to continue to commercialize our products, and if we fail to comply with any such new or modified regulations and requirements it could adversely affect our business, operating results and prospects.

## **Risks Related to Operating in Israel**

*We anticipate being subject to fluctuations in currency exchange rates because we expect a substantial portion of our revenues will be generated in Euros and U.S. dollars, while a significant portion of our expenses will be incurred in New Israeli Shekels.*

We expect a substantial portion of our revenues will be generated in U.S. dollars and Euros, while a significant portion of our expenses, principally salaries and related personnel expenses, is paid in New Israeli Shekels, or NIS. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the Euro or the U.S. dollar, or that the timing of this devaluation will lag behind inflation in Israel. Because inflation has the effect of increasing the dollar and Euro costs of our operations, it would therefore have an adverse effect on our dollar-measured results of operations. The value of the NIS, against the Euro, the U.S. dollar, and other currencies may fluctuate and is affected by, among other things, changes in Israel's political and economic conditions. Any significant revaluation of the NIS may materially and adversely affect our cash flows, revenues and financial condition. Fluctuations in the NIS exchange rate, or even the appearance of instability in such exchange rate, could adversely affect our ability to operate our business.

*If there are significant shifts in the political, economic and military conditions in Israel and its neighbors, it could have a material adverse effect on our business relationships and profitability.*

Our sole manufacturing facility and certain of our key personnel are located in Israel. Our business is directly affected by the political, economic and military conditions in Israel and its neighbors. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has caused security and economic problems in Israel. Although Israel has entered into peace treaties with Egypt and Jordan, and various agreements with the Palestinian Authority, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians since September 2000. The establishment in 2006 of a government in the Gaza Strip by representatives of the Hamas militant group has created heightened unrest and uncertainty in the region. In mid-2006, Israel engaged in an armed conflict with Hezbollah, a Shiite Islamist militia group based in Lebanon, and in June 2007, there was an escalation in violence in the Gaza Strip. From December 2008 through January 2009 and again in November and December 2012, Israel engaged in an armed conflict with Hamas, which involved missile strikes against civilian targets in various parts of Israel and negatively affected business conditions in Israel. In July 2014, Israel launched an additional operation against Hamas operatives in the Gaza strip in response to Palestinian groups launching rockets at Israel. Recent political uprisings and social unrest in Syria are affecting its political stability, which has led to the deterioration of the political relationship between Syria and Israel and have raised new concerns regarding security in the region and the potential for armed conflict. Similar civil unrest and political turbulence is currently ongoing in many countries in the region. The continued political instability and hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our shares of common stock. In addition, several countries restrict doing business with Israel and Israeli companies have been and are today subjected to economic boycotts. The interruption

or curtailment of trade between Israel and its present trading partners could adversely affect our business, financial condition and results of operations.

In addition, many of our officers or key employees may be called to active duty at any time under emergency circumstances for extended periods of time. See “— Our operations could be disrupted as a result of the obligation of certain of our personnel residing in Israel to perform military service.”

***Our operations could be disrupted as a result of the obligation of certain of our personnel residing in Israel to perform military service.***

Many of our officers and employees reside in Israel and may be required to perform annual military reserve duty. Currently, all male adult citizens and permanent residents of Israel under the age of 40 (or older, depending on their position with the Israeli Defense Forces reserves), unless exempt, are obligated to perform military reserve duty annually and are subject to being called to active duty at any time under emergency circumstances. Our operations could be disrupted by the absence for a significant period of one or more of our key officers and employees due to military service. Any such disruption could have a material adverse effect on our business, results of operations and financial condition.

***We may not be able to enforce covenants not-to-compete under current Israeli law.***

We have non-competition agreements with most of our employees, many of which are governed by Israeli law. These agreements generally prohibit our employees from competing with us or working for our competitors for a specified period following termination of their employment. However, Israeli courts are reluctant to enforce non-compete undertakings of former employees and tend, if at all, to enforce those provisions for relatively brief periods of time in restricted geographical areas and only when the employee has unique value specific to that employer's business and not just regarding the professional development of the employee. Any such inability to enforce non-compete covenants may cause us to lose any competitive advantage resulting from advantages provided to us by such confidential information.

***We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.***

A significant portion of our intellectual property has been developed by our Israeli employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967 (the "Israeli Patent Law"), inventions conceived by an employee during the term and as part of the scope of his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Israeli Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee (the "C&R Committee"), a body constituted under the Israeli Patent Law, shall determine whether the employee is entitled to remuneration for his inventions. The C&R Committee (decisions of which have been upheld by the Israeli Supreme Court) has held that employees may be entitled to remuneration for their service inventions despite having specifically waived any such rights. We generally enter into intellectual property assignment agreements with our employees pursuant to which such employees assign to us all rights to any inventions created in the scope of their employment or engagement with us. Although our employees have agreed to assign to us service invention rights and have specifically waived their right to receive any special remuneration for such assignment beyond their regular salary and benefits, we may face

claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current or former employees, or be forced to litigate such claims, which could negatively affect our business.

***It may be difficult for investors in the United States to enforce any judgments obtained against us or some of our directors or officers.***

The majority of our assets other than cash are located outside the U.S. In addition, certain of our officers are nationals and/or residents of countries other than the U.S., and all or a substantial portion of such persons' assets are located outside the U.S. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or any of our non-U.S. officers, including judgments predicated upon the civil liability provisions of the securities laws of the U.S. or any state thereof. Additionally, it may be difficult to assert U.S. securities law claims in actions originally instituted outside of the U.S. Israeli courts may refuse to hear a U.S. securities law claim because Israeli courts may not be the most appropriate forums in which to bring such a claim. Even if an Israeli court agrees to hear a claim, it may determine that the Israeli law, and not U.S. law, is applicable to the claim. Further, if U.S. law is found to be applicable, certain content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process, and certain matters of procedure would still be governed by the Israeli law. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal and state securities laws against us or any of our non-U.S. directors or officers.

***The tax benefits that are currently available to us under Israeli law require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to pay increased taxes and would likely be denied these benefits in the future.***

InspireMD Ltd. has been granted a “Beneficiary Enterprise” status by the Investment Center in the Israeli Ministry of Industry Trade and Labor, and we are therefore eligible for tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959. The main benefit is a two-year exemption from corporate tax, commencing when we begin to generate net income derived from the beneficiary activities in facilities located in Israel, and a reduced corporate tax rate for an additional five to eight years, depending on the level of foreign investment in each year. In addition, under the January 1, 2011 amendment to the Israeli Law for the Encouragement of Capital Investments, 1959, a uniform corporate tax rate of 16% applies to all qualifying income of “Preferred Enterprise,” which we may be able to apply as an alternative tax benefit.

The tax benefits available to a Beneficiary Enterprise or a Preferred Enterprise are dependent upon the fulfillment of conditions stipulated under the Israeli Law for the Encouragement of Capital Investments, 1959 and its regulations, as amended, which include, among other things, maintaining our manufacturing facilities in Israel. If we fail to comply with these conditions, in whole or in part, the tax benefits could be cancelled and we could be required to refund any tax benefits that we received in the past. If we are no longer eligible for these tax benefits, our Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies in 2017 is 24% and in 2018 is 23% of taxable income. The termination or reduction of these tax benefits would increase our tax liability, which would reduce our profits.

In addition to losing eligibility for tax benefits currently available to us under Israeli law, if we do not maintain our manufacturing facilities in Israel, we will not be able to realize certain tax credits and deferred tax assets, if any, including any net operating losses to offset against future profits.

***The tax benefits available to Beneficiary Enterprises may be reduced or eliminated in the future. This would likely increase our tax liability.***

The Israeli government may reduce or eliminate in the future tax benefits available to Beneficiary Enterprises and Preferred Enterprises. Our Beneficiary Enterprise status and the resulting tax benefits may not continue in the future at their current levels or at any level. The tax benefit period is twelve years from the year of election, which means that after a year of election, the two-year exemption and eight years of reduced tax rate can only be used within the next twelve years. The Company elected the year 2007, as a year of election and 2011 as an additional year of election. The 2011 amendment regarding Preferred Enterprise may not be applicable to us or may not fully compensate us for the change. The termination or reduction of these tax benefits would likely increase our tax liability. The amount, if any, by which our tax liability would increase will depend upon the rate of any tax increase, the amount of any tax benefit reduction, and the amount of any taxable income that we may earn in the future.

## **Risks Related to Our Common Stock, Preferred Stock and Warrants**

*The market prices of our common stock and our publicly traded warrants are subject to fluctuation and have been and may continue to be volatile, which could result in substantial losses for investors.*

The market prices of our common stock and our Series A Warrants and Series B Warrants have been and are likely to continue to be highly volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

technological innovations or new products and services by us or our competitors;

additions or departures of key personnel;

our ability to execute our business plan;

operating results that fall below expectations;

loss of any strategic relationship;

industry developments;

economic, political and other external factors; and

period-to-period fluctuations in our financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also significantly affect the market prices of our common stock and our publicly traded warrants.

***Our common stock could be delisted from the NYSE American if we fail to regain compliance with the NYSE American's stockholders' equity continued listing standards on the schedule required by the NYSE American or if our common stock continues to trade for a substantial period of time at low selling prices. Our ability to publicly or privately sell equity securities and the liquidity of our common stock could be adversely affected if we are delisted from the NYSE American.***

On August 17, 2017, we received a notice indicating that we do not meet certain of the NYSE American's continued listing standards as set forth in Part 10 of the Company Guide. Specifically, we were not in compliance with Section 1003(a)(iii) of the Company Guide because we reported stockholders' equity of less than \$6 million as of June 30, 2017, and had net losses in our five most recent fiscal years ended December 31, 2016. As a result, we have become subject to the procedures and requirements of Section 1009 of the Company Guide. The notice also included an early warning of our potential noncompliance with Section 1003(a)(iv) of the Company Guide because the uncertainty regarding our ability to generate sufficient cash flows and liquidity to fund operations raises substantial doubt about its ability to continue as a going concern. In order to maintain our listing on NYSE American, we submitted a plan of compliance to NYSE American addressing how we intend to regain compliance with Section 1003(a)(iii) of the Company Guide, which was accepted by NYSE American on October 19, 2017. On November 22, 2017, we received an additional letter from the NYSE that we are not in compliance with Section 1003(a)(ii) of the Company Guide indicating that we are not in compliance with the stockholders' equity and net income continued listing standards. We have until February 17, 2019, to regain compliance with the continued listing requirements.

We believe, based on our current estimate, we will be required to complete one or more offerings that will provide us with gross proceeds of at least \$20 million prior to February 17, 2019, in order to regain compliance with Sections 1003(a)(ii)-(iii) of the Company Guide and demonstrate to NYSE American that our estimated stockholder's equity will be at least \$6 million as of February 17, 2019 (which should also make us in compliance with Section(a)(ii) by having stockholders' equity of greater than \$4 million). Even if the net proceeds from our future capital raises provide us with sufficient stockholders' equity to regain compliance with Sections 1003(a)(ii)-(iii) of the Company Guide by February 17, 2019, we will be subject to ongoing review for compliance with NYSE American requirements, and there can be no assurance that we will continue to remain in compliance with this standard. If we do not regain compliance by February 17, 2019, or fail to remain in compliance as of February 19, 2019, or anytime thereafter, with Sections 1003(a)(ii)-(iii) of the Company Guide, or if we do not maintain our progress consistent with the plan during the applicable plan period, the NYSE American will initiate delisting proceedings.

In addition to our non-compliance with Sections 1003(a)(ii)-(iii) of the Company Guide, on January 16, 2018, we received notification from the NYSE American that our shares of common stock have been selling for a low price per share for a substantial period of time. Pursuant to Section 1003(f)(v) of the Company Guide, the NYSE American staff determined that our continued listing is predicated on us effecting a reverse stock split of our common stock or



otherwise demonstrating sustained price improvement within a reasonable period of time, which the staff determined to be until July 16, 2018. The NYSE American has also advised us that its policy is to immediately suspend trading in shares of, and commence delisting procedures with respect to, a listed company if the market price of its shares falls below \$0.06 per share at any time during the trading day.

On February 7, 2018, we effected a reverse stock split of our common stock. One of the primary intents for the reverse stock split was that the anticipated increase in the price of our common stock immediately following and resulting from a reverse stock split due to the reduction in the number of issued and outstanding shares of common stock would help us meet the price criteria for continued listing on NYSE American. There can be no assurance that the market price of our new common stock after the reverse stock split will remain above the levels viewed as abnormally low for a substantial period of time. It is not uncommon for the market price of a company's common stock to decline in the period following a reverse stock split. If the market price of our common stock declines following the reverse stock split, the percentage decline may be greater than would occur in the absence of a reverse stock split. In any event, other factors unrelated to the number of shares of our common stock outstanding, such as negative financial or operational results, could adversely affect the market price of our common stock to fall below the levels viewed as low selling price for a substantial period of time and lead the NYSE American to immediately suspend trading in our common stock.

Delisting from NYSE American would adversely affect our ability to raise additional financing through the public or private sale of equity securities, would significantly affect the ability of investors to trade our securities and would negatively affect the value and liquidity of our common stock. Delisting also could have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

***The respective certificate of designation for the Series B Preferred Stock and the Series C Preferred Stock and the Series D Purchase Agreement contains anti-dilution provisions that may result in the reduction of the conversion price in the future. This feature may result in an indeterminate number of shares of common stock being issued upon conversion of the Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock. Sales of these shares will dilute the interests of other security holders and may depress the price of our common stock.***

The respective certificate of designation for our Series B Preferred Stock and Series C Preferred Stock contains anti-dilution provisions, which provisions require the lowering of the applicable conversion price, as then in effect, to the purchase price of equity or equity-linked securities issued in subsequent offerings. In accordance with this anti-dilution price protection, because the effective common stock purchase price in the March 2018 public offering and the April 2018 public offering was below the then current Series B Preferred Stock conversion price, we reduced the Series B Preferred Stock and the Series C Preferred Stock conversion price upon closing of the March 2018 offering and the April 2018 offering. In addition, we have agreed to reduce the conversion price of the Series D Preferred Stock to the public offering price of our common stock in the March 2018 and the April 2018 public offerings. If in the future, while any of our Series B Preferred Stock or Series C Preferred Stock is outstanding, we issue securities at an effective common stock purchase price of less than the applicable conversion price of our Series B Preferred Stock or Series C Preferred Stock, as then in effect, we will be required, subject to certain limitations and adjustments as provided in the respective certificate of designation for the Series B Preferred Stock and the Series C Preferred Stock, to reduce the relevant conversion price, which will result in a greater number of shares of common stock being issuable upon conversion of the Series B Preferred Stock or the Series C Preferred Stock. In addition, as there is no floor price on the conversion price, we cannot determine the total number of shares issuable upon conversion. As such, it is possible that we will not have a sufficient number of available shares to satisfy the conversion of the Series B Preferred Stock or the Series C Preferred Stock if we enter into a future transaction that reduces the applicable conversion price. Moreover, pursuant to the Series D Purchase Agreement and the certificate of designation for the Series D Preferred Stock, the purchasers of Series D Preferred Stock have the option to exchange their Series D Preferred Stock into the securities issued in a subsequent offering or in a Qualified Offering, and the shares of Series C Preferred Stock held by the purchasers of Series D Preferred Stock will be automatically exchanged into the securities we sell in a Qualified Offering (to the extent that stockholder approval for such exchange of Series C Preferred Stock is not required under the Company Guide). In connection with the Series D Private Placement, the certificate of designation for the Series B Preferred Stock was amended to provide that each share of outstanding Series B Preferred Stock will be automatically exchanged into the securities we sell in a Qualified Offering. All of the foregoing features will increase the number of shares issuable upon conversion or exchange, assuming that the effective offering price of our common stock in a subsequent financing or a Qualified Offering is lower than the conversion price of these securities then in effect, of the Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock for no additional consideration, and will result in a greater dilutive effect on our shareholders..



***The mandatory exchange of shares of Series C Preferred Stock held by the purchasers of Series D Preferred Stock into the securities we sell in a Qualified Offering, as contemplated by the Series D Purchase Agreement, as amended, may require us to offer to purchase the shares of Series C Preferred Stock from the Series D Investor, which may delay or make it difficult for us to obtain additional financing.***

The Series D Purchase Agreement, as amended, provides that, upon closing of any subsequent offering that is a Qualified Offering, the shares of Series C Preferred Stock held by the Series D Investor will be exchanged into the securities we sell in a Qualified Offering. The Company Guide Section 713(a)(ii) requires us to obtain stockholder approval in connection with a transaction other than a public offering involving the sale, issuance or potential issuance by the issuer of additional shares of common stock (or securities convertible into or exchangeable for common stock) equal to 20% or more of the number of shares of common stock outstanding before the issuance for a price that is less than the greater of book or market value of the stock on the date the issuer enters into a binding agreement for the issuance of such securities. Accordingly, if the effective offering price of our common stock is less than the greater of book or market value of our common stock at the time of such offering, and the issuance of shares of common stock or shares of common stock underlying securities convertible into common stock in a Qualified Offering upon the exchange of the then outstanding shares of Series C Preferred Stock held by the Series D Investor is equal to 20% or more of the number of shares of our common stock outstanding immediately prior to the offering, as we do not have stockholder approval for this exchange, we will not be able to fully exchange all of the Series D Investor's shares Series C Preferred Stock for securities sold in the Qualified Offering pursuant to the Series D Purchase Agreement. In the event that we fail, or are unable, to issue securities issued in the Qualified Offering to the Series D Investor in exchange for such investor's remaining Series C Preferred Stock due to limitations mandated by the NYSE American, or for any other reason, we are required to offer to purchase from such investor those shares of Series C Preferred Stock not exchanged for the securities sold in the Qualified Offering. Such requirement may make any future financing to be both time consuming or difficult to obtain.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our publicly traded securities to decline.***

Sales of a significant number of shares of our common stock or our warrants in the public market could harm the market prices of our common stock or warrants and make it more difficult for us to raise funds through future offerings of common stock or warrants. Our stockholders and the holders of our options and warrants may sell substantial amounts of our common stock or our publicly traded warrants in the public market. In addition, we will be required to issue additional shares of common stock to the holders of our Series B Preferred Stock upon conversion of shares of our Series B Preferred Stock and the payment of the dividends thereunder in common stock and to the holders of our Series C Preferred Stock upon conversion of shares of our Series C Preferred Stock, as a result of the full ratchet anti-dilution price protection in the respective certificate of designation for the Series B Preferred Stock and the Series C Preferred Stock, if the effective common stock purchase price in a subsequent offering is less than the respective then current conversion price of the Series B Preferred Stock or the Series C Preferred Stock, which in turn will increase the number of shares of common stock available for sale. Moreover, pursuant to the Series D Purchase Agreement, as amended, and the certificate of designation for the Series D Preferred Stock, we have agreed to reduce the conversion price of the Series D Preferred Stock to the public offering price of our common stock in sold in the March 2018 offering and the April 2018 offering, and the purchasers of Series D Preferred Stock have the option to

exchange their Series D Preferred Stock into the securities issued in a subsequent offering having more favorable terms, such as a lower price, which would increase the number of shares of common stock issuable to the holders of Series D Preferred Stock following the exercise of such option. The Series D Purchase Agreement, as amended, also provides for an automatic exchange of all outstanding shares of Series B Preferred Stock and Series C Preferred Stock held by the Series D Investor into the securities we sell in a Qualified Offering (or repurchased, to the extent that we fail, or are unable, to issue securities issued in the Qualified Offering to the Series D Investor in exchange for such investor's remaining Series C Preferred Stock due to limitations mandated by the NYSE American, the Securities and Exchange Commission, or for any other reason), which, if the effective offering price of common stock is lower than the conversion price of Series C Preferred Stock then in effect, would also increase the number of shares issuable to the holder of Series C Preferred Stock. See *“Risk Factors — Risks Related to Our Common Stock, Preferred Stock and Warrants— The respective certificate of designation for the Series B Preferred Stock and the Series C Preferred Stock and the Series D Purchase Agreement contains anti-dilution provisions that may result in the reduction of the conversion price in the future. This feature may result in an indeterminate number of shares of common stock being issued upon conversion of the Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock. Sales of these shares will dilute the interests of other security holders and may depress the price of our common stock.”*

In addition, the fact that our stockholders, option holders and warrant holders can sell substantial amounts of our common stock or our publicly traded warrants in the public market, whether or not sales have occurred or are occurring, could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate, or at all.

***We do not expect to pay dividends in the future. As a result, any return on investment may be limited to the value of our common stock.***

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on an investment in our common stock will only occur if our stock price appreciates.

***The Series B Preferred Stock provides for the payment of dividends in cash or in shares of our common stock, and we may not be permitted to pay such dividends in cash, which will require us to have shares of common stock available to pay the dividends.***

Each share of the Series B Preferred Stock is entitled to receive cumulative dividends at the rate per share of 15% per annum of the stated value per share, until the fifth anniversary of the date of issuance of the Series B Preferred Stock. The dividends are payable, at our discretion, in cash, out of any funds legally available for such purpose, or in pay-in-kind shares of common stock calculated based on the conversion price, subject to adjustment as provided in the certificate of designation for the Series B Preferred Stock. The conversion price is subject to reduction if in the future we issue securities for less than the conversion price of our Series B Preferred Stock, as then in effect. As there is no floor price on the conversion price, we cannot determine the total number of shares issuable upon conversion or in connection with the dividend. It is possible that we will not have a sufficient number of available shares to pay the dividend in common stock, which would require the payment of the dividend in cash. We will not be permitted to pay the dividend in cash unless we are legally permitted to do so under Delaware law, which requires cash to be available from surplus or net profits, which may not be available at the time payment is due. In light of our recurring losses and negative cash flows from operating activities, we do not expect to have cash available to pay the dividends on our Series B Preferred Stock or to be permitted to make such payments under Delaware law, and will be relying on having available shares of common stock to pay such dividends, which will result in dilution to our shareholders. If we do not have such available shares, we may not be able to satisfy our dividend obligations.

***The reverse stock split may decrease the liquidity of the shares of our common stock.***

The liquidity of the shares of our common stock may be affected adversely by the reverse stock split given the reduced number of shares that are outstanding following the reverse stock split. In addition, the reverse stock split increased the number of stockholders who own odd lots (less than 100 shares) of our common stock, creating the potential for such stockholders to experience an increase in the cost of selling their shares and greater difficulty effecting such sales.

***There is no public market for our preferred stock.***

There is no established trading market for our preferred stock. A trading market for our preferred stock is not expected to develop, and even if a market develops for our preferred stock, it may not provide meaningful liquidity. The absence of a trading market or liquidity for our preferred stock may adversely affect their value.

***We are subject to financial reporting and other requirements that place significant demands on our resources.***

We are subject to reporting and other obligations under the Securities Exchange Act of 1934, as amended, including the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires us to conduct an annual management assessment of the effectiveness of our internal controls over financial reporting. These reporting and other obligations place significant demands on our management, administrative, operational, internal audit and accounting resources. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and stock price. Moreover, effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed.

***There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.***

The ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 require us to identify material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Our management, including our chief executive officer and chief financial officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In addition, discovery and disclosure of a material weakness, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain customers or suppliers from doing business with us and adversely affect how our stock trades. This could in turn negatively affect our ability to access equity markets for capital.

***Delaware law and our corporate charter and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.***

Our board of directors is authorized to issue shares of preferred stock in one or more series and to fix the voting powers, preferences and other rights and limitations of the preferred stock. Accordingly, we may issue shares of preferred stock with a preference over our common stock with respect to dividends or distributions on liquidation or dissolution, or that may otherwise adversely affect the voting or other rights of the holders of common stock. Issuances of preferred stock, depending upon the rights, preferences and designations of the preferred stock, may have the effect of delaying, deterring or preventing a change of control, even if that change of control might benefit our stockholders. In addition, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the transaction, the board of directors of the corporation approved either the



business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 could delay or prohibit mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

***We have a staggered board of directors, which could impede an attempt to acquire us or remove our management.***

Our board of directors is divided into three classes, each of which serves for a staggered term of three years. This division of our board of directors could have the effect of impeding an attempt to take over our company or change or remove management, since only one class will be elected annually. Thus, only approximately one-third of the existing board of directors could be replaced at any election of directors.

***As a former shell company, resales of shares of our restricted common stock in reliance on Rule 144 of the Securities Act are subject to the requirements of Rule 144(i).***

We previously were a “shell company” and, as such, sales of our securities pursuant to Rule 144 under the Securities Act of 1933, as amended, cannot be made unless, among other things, at the time of a proposed sale, we are subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and have filed all reports and other materials required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 as amended, as applicable, during the preceding 12 months, other than Form 8-K reports. Because, as a former shell company, the reporting requirements of Rule 144(i) will apply regardless of holding period, restrictive legends on certificates for shares of our common stock cannot be removed except in connection with an actual sale that is subject to an effective registration statement under, or an applicable exemption from the registration requirements of, the Securities Act of 1933, as amended. Because our unregistered securities cannot be sold pursuant to Rule 144 unless we continue to meet such requirements, any unregistered securities we issue will have limited liquidity unless we continue to comply with such requirements.

***No industry analyst publishes research about our business.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. Because no industry analyst publishes research about us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***Aspects of the tax treatment of the securities may be uncertain.***

The tax treatment of our preferred stock and our warrants is uncertain and may vary depending upon whether you are an individual or a legal entity and whether or not you are domiciled in the United States. In the event you are a non-U.S. investor, you should consult your tax advisors as to the consequences, under the tax laws of the country where you are resident for tax purposes, of acquiring, holding and disposing of our preferred stock and our warrants.

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

See Index to Exhibits.

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**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.

INSPIREMD, INC.

Date: May 7, 2018 By: */s/ James Barry, Ph.D.*  
Name: James Barry, Ph.D  
Title: President and Chief Executive Officer

Date: May 7, 2018 By: */s/ Craig Shore*  
Name: Craig Shore  
Title: Chief Financial Officer, Secretary and Treasurer

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | <u>Amended and Restated Certificate of Incorporation, as amended through September 30, 2015 (incorporated by reference to Exhibit 3.1 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2015)</u>   |
| 3.2                | <u>Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2011)</u>  |
| 3.3                | <u>Certificate of Designation, Preferences and Rights of Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)</u>                |
| 3.4                | <u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of InspireMD, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on May 25, 2016)</u>  |
| 3.5                | <u>Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to the Quarterly Report on Form 10-Q filed on August 9, 2016)</u>                            |
| 3.6                | <u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of InspireMD, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on September 29, 2016)</u>                                    |
| 3.7                | <u>Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on March 15, 2017)</u>                               |
| 3.8                | <u>Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitation of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on November 29, 2017)</u> |
| 3.9                | <u>Certificate of Designation of Preferences, Rights and Limitation of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on December 4, 2017)</u>                              |
| 3.10               | <u>Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on December 12, 2017)</u> |
| 3.11               | <u>Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitation of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on December 22, 2017)</u> |
| 3.12               | <u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of InspireMD, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on February 7, 2018)</u>                                      |

3.13 Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitation of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on March 1, 2018)

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- 3.14 Certificate of Amendment to Certificate of Designation of Preferences, Rights and Limitation of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 3, 2018)
- 4.1 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 5, 2013)
- 4.2 Form of Series B Warrant Agent Agreement and Form of Series B Warrant (incorporated by reference to Exhibit 4.3 to Amendment No.3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 6, 2017)
- 4.3 Form of Series C Warrant Agent Agreement and Form of Series C Warrant (incorporated by reference to Exhibit 4.4 to Amendment No.3 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 6, 2017)
- 10.1 Amendment to Securities Purchase Agreement, dated February 21, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 21, 2018)
- 10.2 Waiver Agreement, dated February 26, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 26, 2018)
- 10.3 Form of Underwriter Warrant, dated March 1, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 1, 2018)
- 10.4 Waiver Agreement, dated March 28, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 29, 2018)
- 10.5 Form of Underwriter Warrant, dated April 2, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 3, 2018)
- 31.1\* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language), (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements

\* Filed herewith.





