SINA CORP
Form 20-F
June 29, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from __________ to __________

OR

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

Date of event requiring this shell company report __________

Commission file number 000-30698

SINA CORPORATION

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

Room 1802, United Plaza
1468 Nan Jing Road West
Shanghai 200040, China

(Address of principal executive offices)

Contact Person: Chief Financial Officer
Phone: +8610 8262 8888
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Address: 20/F Beijing Ideal International Plaza
No. 58 Northwest 4th Ring Road
Haidian District, Beijing, 100080, People s Republic of China

(name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, $0.133 par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)
Ordinary Shares Purchase Rights	

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable

(Title of Class)

As of December 31, 2008, there were 56,120,785 shares of the registrant s ordinary shares outstanding, $0.133 par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. o Yes þ No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

Indicate by check mark which basis for accounting the registrant has used to prepare the financing statements included in this filing: U.S. GAAP þ

International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

Indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 þ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- *we, us, our company, the Company, our and SINA refer to SINA Corporation, its subsidiaries, and, in th of describing our operations and consolidated financial information, include our consolidated variable interest entities (VIEs) in China;*
- *China or PRC refers to the People s Republic of China solely for the purpose of this annual report, and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan;*
- *GAAP refers to generally accepted accounting principles in the United States; PRC GAAP refers to generally accepted accounting principles in the PRC;*
- *shares or common shares refer to our ordinary shares;*
- *all references to RMB or renminbi are to the legal currency of China, and all references to $, dollars, US$ U.S. dollars are to the legal currency of the United States; and*
- *all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.*

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, the or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made under the caption Risk Factors included herein.

PART I

Item 1. *Identity of Directors, Senior Management and Advisers*

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

A. Selected Financial Data

The selected consolidated statements of operation data presents the results for the five years ended December 31, 2008, 2007, 2006, 2005 and 2004. The Company s historical results do not necessarily indicate results expected for any future periods. The

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selected consolidated financial data below should be read in conjunction with our consolidated financial statements and notes thereto, Item 5. Operating and Financial Review and Prospects below, and the other information contained in this Form 20-F.

	2008	2007	2006	2005	2004
			Years ended December 31,		
			(In thousands, except per share data)		
Operations:					
Net revenues	$369,587	$246,127	$212,854	$193,552	$199,987
Gross profit	219,252	151,425	133,444	130,445	138,376
Income from operations	74,581	51,014	34,907	41,508	69,325
Income before income taxes and minority interests	95,209	64,233	43,967	45,525	69,224
Net income	80,638	57,729	39,916	43,115	65,996
Net income per share					
Basic	$ 1.44	$ 1.05	$ 0.74	$ 0.82	$ 1.33
Diluted	$ 1.33	$ 0.97	$ 0.69	$ 0.75	$ 1.15

	2008	2007	2006	2005	2004
			December 31,		
			(In thousands)		
Financial position:					
Cash, cash equivalents and short-term investments	$603,824	$477,999	$362,751	$300,689	$275,635
Working capital	498,524	377,608	267,116	297,910	252,027
Total assets	822,494	662,263	538,809	468,721	430,425
Long-term liabilities	4,039	1,337		100,000	102,142
Total liabilities	197,946	167,287	150,996	149,099	177,080
Total shareholders equity	620,505	494,976	387,813	319,622	253,345

* The Company began to include stock-based compensation charges in its costs of revenues and operating expenses starting January 1, 2006 in accordance with the Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004),

Share-Based Payment. Stock-based compensation charges for fiscal 2008, 2007 and 2006 were $14.3 million, $8.7 million and $9.5 million, or $0.24 diluted net income per share, $0.15 diluted net income per share and $0.16 diluted net income per share, respectively.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Due to the relatively new and evolving market that we operate in, we cannot predict whether we will meet internal or external expectations of future performance.

Our primary market is in China, where the operating environment is less predictable and mature than those of developed economies and where the Internet industry is still relatively new and fast evolving. We believe our future success depends on our ability to significantly grow our revenues from new and existing products, business models and sales channels. However, market data on our business, especially on emerging products, business models and sales channels, are often limited, unreliable or nonexistent. Accordingly, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in a relatively new and fast changing market and with a limited operating history. These risks include our ability to:

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offer new and innovative products;

attract buyers for our mobile value-added services (MVAS);

attract advertisers;

attract a larger audience to our network;

derive revenue from our users from fee-based Internet services;

respond effectively to competitive pressures and address the effects of strategic relationships or corporate combinations among our competitors;

maintain our current, and develop new, strategic relationships;

increase awareness of our brand and continue to build user loyalty;

attract and retain qualified management and employees;

upgrade our technology to support increased traffic and expanded services; and

expand the content and services on our network, secure premium content and increase network bandwidth in a cost-effective manner.

Due to the relatively new and evolving market that we operate in and our limited operating history, our historical year-over-year and quarter-over-quarter trends may not provide a good indication of our future performance. For certain business lines, we have experienced high growth rates in the past and there may be expectations that these growth rates will continue. For other business lines, we have experienced a recent turnaround of declining trends and there may be expectations that the turnaround will last. Our operating results have in the past fallen below the expectations of industry analysts and investors and may do so again in the future. Our stock price may decline significantly as a result of not meeting internal or external expectations of future performance.

You should not place undue reliance on our financial guidance, nor should you rely on our quarterly operating results as an indication of our future performance because our results of operations are subject to significant fluctuations.

We may experience significant fluctuations in our quarterly operating results due to a variety of factors, many of which are outside our control. Significant fluctuations in our quarterly operating results could be caused by any of the factors identified in this section, including but not limited to our ability to retain existing users, attract new users at a steady rate and maintain user satisfaction; the announcement or introduction of new or enhanced services, content and products by us or our competitors; significant news events that increase traffic to our websites; technical difficulties, system downtime or Internet failures; demand for advertising space from advertisers; seasonality of the advertising market; the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; operators policies; governmental regulation; seasonal trends in Internet use; a shortfall in our revenues relative to our forecasts and a decline in our operating results due to our inability to adjust our spending quickly; and general economic conditions and economic conditions specific to the Internet, wireless, electronic commerce and the Greater China market. As a result of these and other factors, you should not place undue reliance on our financial guidance, nor should you rely on quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our quarterly revenue and earnings per share guidance is our best estimate at the time we provide guidance. Our operating results may be below our expectations or the expectations of public market analysts and investors in one or more future quarters. If that occurs, the price of our ordinary shares could decline and you could lose part or all of your investment.

We are relying on advertising sales as a significant part of our future revenues, but the online advertising market is subject to many uncertainties, which could cause our advertising revenues to decline.

The online advertising market is new and evolving rapidly in China. Many of our current and potential advertisers have limited experience with the Internet as an advertising medium, have not traditionally devoted a significant portion of their advertising expenditures or other available funds to web-based advertising, and may not find the Internet to be effective for promoting their products and services relative to traditional print and broadcast media. If the Internet does not become more widely accepted as a medium for advertising, our ability to generate increased revenue could be negatively affected. Our ability to generate and maintain significant advertising revenues will depend on a number of factors, many of which are beyond our control, including but not limited to:

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the development and retention of a large base of users possessing demographic characteristics attractive to advertisers;

the maintenance and enhancement of our brands in a cost effective manner;

increased competition and potential downward pressure on online advertising prices and limitations on web page space;

changes in government policy that curtail or restrict our online advertising services;

the acceptance of online advertising as an effective way for advertisers to market their businesses;

the development of independent and reliable means of verifying levels of online advertising and traffic; and

the effectiveness of our advertising delivery, tracking and reporting systems.

Our current and potential advertising clients have limited experience using the Internet for advertising purposes and historically have not devoted a significant portion of their advertising budget to online advertising. We may not be successful in getting our current and potential advertisers to increase their budget for online advertising.

In 2008, approximately 65% of our advertising revenues were derived from the automobile, real estate, information technology and financial sectors. If there is a downturn in the advertising spending in these sectors, our results of operations, cash flows and financial condition and our share price could suffer.

Our growth in advertising revenues, to a certain extent, will also depend on our ability to increase the advertising space on our network. If we fail to increase our advertising space at a sufficient rate, our growth in advertising revenues could be hampered. Further, the increasing usage of Internet advertising blocking software may result in a decrease of our advertising revenues as the advertisers may choose not to advertise on the Internet if Internet advertising blocking software is widely used.

The consolidation of advertising agencies in China could increase the bargaining power of larger advertising agencies, which may adversely impact our revenue growth.

In 2008, approximately 91% of our advertising revenues in China came through advertising agencies. Some advertising agencies have been seeking consolidation in the market. If such trend continues, the bigger agencies could have more bargaining power against us. As the larger agencies increase their bargaining power, they may demand larger sales rebates, which could reduce our revenue growth. For 2008, our 10 largest advertising agencies in China contributed to 57% of our advertising revenues. As an example, a 10% increase in rebates to our ten largest advertising agencies in 2008 would have reduced our advertising revenue growth in 2008 from the prior year by 1%. Focus Media Holding Limited and affiliates as an advertising agency group accounted for 20% of our advertising revenues in 2008.

We are relying on MVAS for a significant portion of our future revenue. Our MVAS revenues have declined in the past and may decrease further in the future.

For 2008 and 2007, MVAS revenues accounted for 28% and 29% of our total net revenues, respectively. Short messaging service (SMS) and interactive voice response system (IVR) revenues accounted for approximately 33% and 25%, respectively, of our MVAS revenues for fiscal 2008. If users do not adopt our MVAS at a sufficient rate, or if our SMS or IVR revenues fail to grow, our MVAS revenue growth could be negatively affected. Our MVAS revenues declined from 2005 through 2007 and may decline in the future. Factors that may prevent us from maintaining or growing our MVAS revenues include:

our ability to develop new services that become accepted by the market;

our ability to retain existing customers of our subscription services;

our ability to attract new subscribers in a cost-effective manner;

our ability to provide satisfactory services to our customers;

competitors, including operators, may launch competing or better products than ours;

changes in policy, process and/or system by China Mobile Communication Corporation (China Mobile), China Unicom Co., Ltd. (China Unicom) or other operators, on whom we rely for service delivery, billing and payment collection, and who in the past have made sudden changes that have significantly impacted our revenues and may continue to do so in the future; and

changes in government regulations, which could restrict our MVAS offerings, curtail our ability to market our services or change user adoption or usage patterns in a negative way. For example, in August 2007, the Ministry of Information Industry (superseded by the Ministry of Industry and Information Technology established in March 2008, both of which referred to as MII) tightened the regulations over direct advertising in China, which reduced the effectiveness of our direct advertising on MVAS and increased the difficulties of new user recruitment. In December 2007, MII unified the dialing codes of each service provider (SP), which increased the number of digits a user must input to subscribe to an SP s MVAS, thereby making the purchasing process more complicated. MII has proposed requiring mobile users, including pre-paid card subscribers, to register their real identity. Implementation of these changes has led to in the past and may lead to in the future fewer subscriptions of MVAS and a decrease in new customers.

In addition to the above, we are relying on new MVAS, such as multimedia messaging service (MMS), color ring back tone (CRBT), KJAVA/BREW and wireless application protocol (WAP) , as a significant part of our future revenue growth for MVAS. However, the current market size for these new MVAS is relatively small and adoption rates are still relatively low for these services compared to SMS and IVR services. We cannot assure you that our new MVAS offerings will be accepted by the market or, in light of evolving and/or unclear policies and regulations, will meet the requirements of operator policies and government regulations upon release. If revenues from these services do not grow significantly, our financial position, results of operations and cash flows could be materially and adversely affected, the price of our ordinary shares could decline and you could lose part or all of your investment.

With respect to MVAS, we rely on China Mobile, China Unicom and other operators for marketing, service delivery, billing and payment collection, and we may be negatively affected by changes which they may make suddenly and unilaterally.

Our MVAS offerings depend mainly on cooperation arrangements with China Mobile and China Unicom. In addition, we have arrangements with China Telecommunications Corporation (China Telecom). We rely on the operators in the following ways: utilizing their network and gateway to recruit and provide MVAS to subscribers; utilizing their billing systems to charge the fees to our subscribers through the subscribers mobile phone bill; utilizing their collection services to collect payments from subscribers; and relying on their infrastructure development to further develop new products and services. As of December 31, 2008, we offered our MVAS pursuant to relationships with 31 provincial and local subsidiaries of China Mobile and 20 provincial subsidiaries of China Unicom. As we have limited bargaining power against the operators, we may enter into cooperation agreements on terms that are unfavorable to us. The operators may also unilaterally terminate or amend the agreements at any time. If China Mobile, China Unicom or other operators choose not to continue the cooperation arrangements with us or if they unilaterally amend the cooperation arrangements with terms significantly unfavorable to us, our MVAS revenues and operating profitability could be materially and negatively affected.

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In the past, operators have made sudden and unexpected changes in their policies, processes and systems, which have harmed, and may continue to harm, our business. For example:

In mid 2004, operators began transitioning SMS to new billing platforms, which has resulted in added operational controls and procedures in areas such as customer subscription and customer billing. Such change has increased the difficulties of new user recruitment and the failure rate for fee collection from our SMS users.

In January 2005, China Mobile stopped its MMS Album service, which allowed users to retrieve their subscribed MMS messages from China Mobile s website when the subscribed MMS messages could not be successfully delivered to their mobile phones. With the termination of MMS Album, we are no longer able to collect fees from users when the MMS messages could not be delivered to such users mobile phones.

In March 2005, China Mobile began migrating MMS onto a new billing platform, which has resulted in added operational controls and procedures and, correspondingly, increased the difficulties of new user recruitment and increased the failure rate for fee collection from our users.

In April 2006, China Unicom issued a new policy that sets price ceilings for usage-based and monthly subscription SMS. Such change may require us to lower our current prices on certain SMS services or discontinue offering these services completely.

In July 2006, China Mobile made significant changes to its policy on subscription-based MVAS, which included requiring double confirmations on new MVAS subscriptions as well as sending SMS reminders to existing monthly subscribers of SMS, MMS and WAP to inform them of their MVAS subscription and fee information. In addition, China Mobile s provincial subsidiaries have been canceling existing WAP subscriptions that have been inactive for four months and existing SMS subscriptions of users who did not successfully receive more than three SMS messages during the month. These policy changes from China Mobile have reduced our ability to acquire new monthly MVAS subscribers and increased the churn rate of existing monthly MVAS subscribers.

In September 2006, China Unicom began enforcing a policy of double confirmation on new MVAS subscriptions. Such change has significantly reduced our ability to acquire new monthly MVAS subscribers.

In April 2007, China Unicom changed its service fee settlement method with service providers from estimated collection to actual collection. As a result of the switch, fee settlement, based on the receipt of billing statement, with China Unicom has taken up to four months, which has negatively impacted our cash flow. In addition, if we are unable to rely on historical confirmation rates from China Unicom as a result of the change in fee settlement method, we may need to defer recognition of such revenues until the billing statements are received.

In July 2007, China Mobile began implementing a score and ranking system that attempts to reward larger, higher growth service providers with lesser user complaints. Receiving a low score or ranking, e.g., as a result of too many complaints filed by our MVAS customers, could result in a negative impact to our results of operations, cash flows and financial condition.

Our operators could make further changes at any time, including, but not limited to, requiring SPs to use the operators customer service and/or marketing service and charging for these services; requiring SPs to migrate their MVAS to an operator s platform and increase the fees charged for using the operator s platform; changing their fee structure or billing method in a way that would require us to delay the recognition of MVAS revenues from an accrual basis to when actual billing is received; implementing new billing rules, such as reducing MVAS fees that can be charged to users; disallowing SPs to bill certain inactive users and limiting the amount of MVAS fees that can be billed; requiring SPs to absorb end customer bad debts; issuing new rules on how WAP SPs are placed on their browsers, which significantly determines WAP revenues; refusing to pay SPs for services delivered; and limiting the product offerings of SPs by working directly with content providers to launch competing services or giving exclusive rights to certain SPs to offer certain MVAS. Any change in policy, process or system by the operators could result in a material reduction of our MVAS revenues.

China Mobile, China Unicom and other operators have in the past increased the fees charged for providing their services and may do so again in the future. If they choose to increase such fees, our gross margin for MVAS and our operating profitability may be negatively impacted. These operators have generally retained a certain percentage of the fees for value-added services we provided to our users via their platform for fee collection. In addition, they charge transmission fees for some products such as SMS and MMS on a per message basis, and the rates of such transmission fees vary for different products and message volume. For fiscal year 2008, we received on average 79% and 81% of the amount we charged to our users via the China Mobile platform and the China Unicom platform, respectively, after they deducted the fees for collection and transmission.

If China Mobile, China Unicom or other operators restrict or disallow some or all MVAS to be charged on a monthly subscription basis, our revenues from MVAS could be severely impacted. We currently charge our users who have registered to be billed on a monthly basis even if they do not use the service in a particular month. If China Mobile, China Unicom or other operators do not allow us to charge monthly fees for users who do not use our service in a particular month, our MVAS revenues could be negatively impacted. For 2008, approximately 19% of our MVAS revenues were derived from monthly subscription products, which mainly consist of SMS, MMS and WAP.

In the past, China Mobile and China Unicom imposed penalties on MVAS providers for violating certain operating policies relating to MVAS. In some cases, they stopped making payments to certain SPs for severe violations. To date, the accrued penalties we have received have been insignificant in dollar amounts, but it is difficult to determine the specific conduct that might be interpreted as violating such operating policies. Additionally, operators may unilaterally revise their arrangements with us at any time, which could result in us breaching the new terms and being subject to fines. In the future, if China Mobile, China Unicom or other operators impose more severe penalties on us for policy violations, our revenues from MVAS and operating results may be negatively impacted.

We are potentially subject to liability and penalty for delivering inappropriate content through our MVAS. One of the violations cited in the notice for temporary termination of our IVR service at the end of July 2004 was that we had provided inappropriate content to our mobile subscribers through our IVR service. The definition and interpretation of inappropriate content in many cases are vague and subjective. We are not sure whether operators including China Mobile and China Unicom or the Chinese government will find our other mobile content inappropriate and therefore prevent us from operating the MVAS relating to such content in the future. If they prevent us from offering such services, our revenues from MVAS may suffer significantly.

A portion of our MVAS revenues is currently estimated based on our internal records of billings and transmissions for the month, adjusted for prior period confirmation rates from operators and prior period discrepancies between internal estimates and confirmed amounts from operators. Historically, there have been no significant true up adjustments to our estimates. If there was no consistent confirmation rates trend or if there were continuous significant true up adjustments to our estimates under the new billing platforms, we will need to rely on the billing statements from the operators to record revenues. Due to the time lag of receiving the billing statements, our MVAS revenues may fluctuate with the collection of billing statements if we were to record our MVAS revenues when we receive the billing statements. For example, if an operator switches payment to SPs from estimated collection from users to actual collection, such policy change may cause us to delay the recognition of these revenues until we receive the actual billings and/or until we have reliable information to make such revenue estimates. For the fourth quarter of 2008, approximately 17% of our MVAS revenues were estimated at period end.

In the past, China Mobile has requested resettlement of billings that were settled in previous periods and on which payments have been made to us. We have accrued for such credits to revenue based on a rolling history and the true ups between the accrued amounts and actual credit memos issued have not been significant. However, there is no guarantee that China Mobile or other operators will not request resettlement of previously received payments. If China Mobile or other operators request resettlement of billings for a previous period at amounts significantly larger than our credit memo accrual based on historical patterns, our operating results, financial position and cash flow may be severely impacted.

If China Mobile s, China Unicom s or other operators systems encounter technical problems, if they refuse to cooperate with us or if they do not provide adequate service, our MVAS offerings may cease or be severely disrupted, which could have a significant and adverse impact on our operating results.

The markets for MVAS and Internet services are highly competitive, and we may be unable to compete successfully against new entrants and established industry competitors, which could reduce our market share and adversely affect our financial performance.

There is significant competition among MVAS providers. A large number of independent MVAS providers, such as Kongzhong Corporation (Kongzhong), Tencent Holdings Limited (Tencent), TOM Online, Inc. (TOM Online), Hurray! Holding Co., Ltd. (Hurray) and Linktone Ltd. (Linktone), compete against us. We may be unable to continue to grow our revenues from these services in this competitive environment. In addition, the major operators in China, including China Mobile and China Unicom, have entered the business of content development. Any of our present or future competitors may offer MVAS that provide significant technology, performance, price, creativity or other advantages over those offered by us, and therefore achieve greater market acceptance than ours.

The Chinese market for Internet content and services is competitive and rapidly changing. Barriers to entry are relatively low, and current and new competitors can launch new websites or services at a relatively low cost. Many companies offer Chinese language content and services, including informational and community features, fee-based services, email and electronic commerce services in the Greater China market that may be competitive with our offerings. In addition, providers of Chinese language Internet tools and services may be acquired by, receive investments from or enter into other commercial relationships with large, well-established and well-financed Internet, media or other companies. We also face competition from providers of software and other Internet products and services. In addition, we compete with entities that sponsor or maintain high-traffic websites or provide an initial point of entry for Internet users, such as portals and search sites. Our competitors include existing or emerging PRC Internet portals as well as vertical websites competing in a specific niche such as automobile, real estate, finance and IT information. Our competitors in these areas include Baidu.com, Inc. (Baidu), Tencent, Netease.com, Inc. (Netease), TOM Online, Sohu.com Inc. (Sohu), Hexun, East Money, China Finance Online, PCAuto, Auto Home, Soufun and PCOnline. Many of these companies are large, well-capitalized entities that currently offer, and could further develop or acquire, content and services that compete with those that we offer. Companies such as these may have greater financial and technical resources, better brand recognition, more developed sales and marketing networks, more customers, stronger government relationships and more extensive operating histories. As a result, such

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companies may be able to quickly provide competitive services and obtain a significant number of customers. We expect that as Internet usage in Greater China increases and the Greater China market becomes more attractive to advertisers and for conducting electronic commerce, large global competitors, such as Microsoft Corporation (Microsoft) (MSN), Yahoo! Inc. (Yahoo!), eBay Inc. (eBay), Google, Inc. (Google) and America Online Inc. (AC may increasingly focus their resources on the Greater China market. Some of these global Internet companies may partner with domestic organizations to penetrate the PRC market. We also compete for advertisers with traditional media companies, such as newspapers, television networks and radio stations that have a longer history of use and greater acceptance among advertisers. Although new media companies, such as those in outdoor media, more directly compete with traditional media, such as television, they ultimately compete with us to convert advertisers from traditional media to new media. These competitors include Focus Media Holding Limited (Focus), Air Media Group Inc., Vision China Media Inc. and other China-based private or public new media advertising companies.

Our other areas of focus for future growth include WAP portal, search and Web 2.0 services. We also face intense competition from domestic and international companies in these areas. The main competitors for our WAP portal include Tencent, Shanghai 3G Electronic Engineering Company Ltd. (Shanghai 3G), Kongzhong and WAP portals operated by mobile telecom operators such as China Mobile s Monternet. The main competitors for our search service include Baidu, Yahoo!/Alibaba, Google, Tencent (Soso) and Netease (Youdao). The main competitors for our instant messaging service include Tencent (QQ), Microsoft (MSN Messenger) and Alibaba/Yahoo! China (Yahoo Messenger). Web 2.0 companies are defined as those that offer tools to: (1) generate traffic through user-generated contents, such as social networks, blogs, video podcasting and album; (2) allow users to communicate, such as instant messaging and email and/or (3) allow users to personalize individual sites and virtual communities, such as space and group. Our competition in the Web 2.0 space include public companies such as Baidu, Tencent, Netease, Sohu and Microsoft (MSN) as well as private companies such as Youku, 56.com, Tudou, Ku6, PP Live, PP Stream, Bokee, Blogbus, Hexun, Xiaonei.com, Kaixin001.com, hainei.com and 51.com in China and international players such as YouTube, MySpace and Facebook. Many of our competitors have a longer history of providing these online services and currently offer a greater breadth of products which may be more popular than our online offerings. Many of these companies are focused solely on one area of our business and are able to devote all of their resources to that business line and can more quickly adapt to changing technology and market conditions. These companies may therefore have a competitive advantage over us with respect to these business areas. A number of our current and potential future competitors may have greater financial and other resources than we have, may be able to more quickly react to changing consumer requirements and demands, may deliver competitive services at lower prices or with more desirable features and functionalities and may market more effectively to certain user audiences. Increased competition could result in reduced page views and unique visitors, loss of market share and revenues and lower profit margins.

Our business is highly sensitive to the strength of our brands in the marketplace, and we may not be able to maintain current or attract new users, customers and strategic partners for our products and offerings if we do not continue to increase the strength of our brands and develop new brands successfully in the marketplace.

Our operational and financial performance is highly dependent on our strong brands in the marketplace. Such dependency will increase further as the number of Internet and mobile users as well as the number of market entrants in China grow. In order to retain existing and attract new Internet users, advertisers, mobile customers and strategic partners, we may need to substantially increase our expenditures for creating and maintaining brand awareness and brand loyalty. Consequently, we will need to grow our revenues at least in the same proportion as any increase in brand spending to maintain current levels of profitability. There have been negative press coverage about the Company based on untrue or unsubstantiated rumors in the past, and the Company has taken affirmative steps to address these coverage. However, we cannot assure you that we will always be able to diffuse negative press coverage about the Company to the satisfaction of our investors, users, advertisers, customers and strategic partners. If we are unable to diffuse negative press coverage about the Company, our brands may suffer in the marketplace and our operational and financial performances may be negatively impacted as a result.

If we are unable to keep up with the rapid technological changes of the Internet industry, our business may suffer.

The Internet industry is experiencing rapid technological changes. For example, with the advances of search engines, Internet users may choose to access information through search engines instead of web portals. With the advent of Web 2.0, the interests and preferences of Internet users may shift to user-generated content, such as blogs and video podcasting. As broadband becomes more accessible, Internet users may demand content in pictorial, audio-rich and video-rich format. With the development of 2.5G and the issuance of 3G licenses in China, mobile users may shift from the current predominant text messaging services to newer applications, such as multimedia messaging services, mobile commerce, music and video downloads and mobile games. Our future success will depend on our ability to anticipate, adapt and support new technologies and industry standards. If we fail to anticipate and adapt to these and other technological changes, our market share and our profitability could suffer.

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If we fail to successfully develop and introduce new products and services, our competitive position and ability to generate revenues could be harmed.

We are developing new products and services. The planned timing or introduction of new products and services is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or services. Moreover, we cannot be sure that any of our new products and services will achieve widespread market acceptance or generate incremental revenue. If our efforts to develop, market and sell new products and services to the market are not successful, our financial position, results of operations and cash flows could be materially adversely affected, the price of our ordinary shares could decline and you could lose part or all of your investment.

Our investment in Web 2.0 services, search and WAP portal may not be successful.

Web 2.0 services, such as blog, video podcasting and online communities, search and WAP portal are currently some of the fastest growing online services in the PRC. We have invested and intend to expand in these areas. For example, we developed our own search engine, we acquired Davidhill Capital Inc. (Davidhill) and its instant messaging platform and we have invested heavily in these and other Web 2.0 services, such as blog, video podcasting and online communities. Some of our competitors have entered these markets ahead of us and have achieved significant market positions. Our main competitors in Web 2.0 services, search and WAP portal include Baidu, Tencent, Netease, Sohu, Google and Microsoft (MSN) and private companies such as Youku, 56.com, Tudou, Ku6, PP Live, PP Stream, Bokee, Blogbus, Hexun, Xiaonei.com, Kaixin001.com, hainei.com, 51.com, Yahoo!/Alibaba, China Mobile s Monternet, Shanghai 3G and Kongzhong. We have also invested and plan to continue to invest in other technological products and tools, such as building game and music platforms to complement our existing Internet service offerings. Our competitors in these areas tend to be more specialized in their specific markets and may have access to greater resources, which may give them a competitive advantage over us. We cannot assure you that we will succeed in these markets despite our investment of time and funds to address these markets. If we fail to achieve a significant position in these markets, we could fail to realize our intended returns in these investments. Moreover, our competitors who succeed may enjoy increased revenues and profits from an increase in market share in any of these specific markets, and our results and share price could suffer as a result.

Our business and growth could suffer if we are unable to hire and retain key personnel who are in high demand.

We depend upon the continued contributions of our senior management and other key personnel, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key personnel could harm our business. We have experienced recent changes to our directors and officers. Our future success will also depend on our ability to attract and retain highly skilled technical, managerial, editorial, finance, marketing, sales and customer service employees. Qualified individuals are in high demand, and we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.

Our strategy of acquiring complementary assets, technologies and businesses may fail and may result in equity or earnings dilution.

As part of our business strategy, we have acquired and intend to continue to identify and acquire assets, technologies and businesses that are complementary to our existing business. In January 2003 we acquired Memestar Limited, an MVAS company; in March 2004, we acquired Crillion Corporation, an MVAS company; in October 2004, we acquired Davidhill, an instant messaging technology platform; and in December 2008, we signed an agreement to purchase substantially all of the assets of Focus Media Holding Limited s digital out-of-home advertising network. Acquired businesses or assets may not yield the results we expect. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill and other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the cost of identifying and consummating acquisitions, and integrating the acquired businesses into ours, may be significant, and the integration of acquired business may be disruptive to our business operations. In addition, we may have to obtain approval from the relevant PRC governmental authorities for the acquisitions and comply with any applicable PRC rules and regulations, which may be costly. In the event our acquisitions are not successful, our financial condition and results of operation may be materially adversely affected.

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We may not be able to manage our expanding operations effectively, which could harm our business.

We have expanded rapidly by acquiring companies, entering into joint ventures and forming strategic partnerships. These new businesses, joint ventures and strategic partnerships provide various services such as MVAS, instant messaging and worldwide web search. We anticipate continuous expansion in our business, both through further acquisitions and internal growth, as we address growth in our customer base and market opportunities. In addition, the geographic dispersion of our operations as a result of acquisitions and overall internal growth requires significant management resources that our locally-based competitors do not need to devote to their operations. In order to manage the expected growth of our operations and personnel, we will be required to improve and implement operational and financial systems, procedures and controls, and expand, train and manage our growing employee base. Further, our management will be required to maintain and expand our relationships with various other websites, Internet and other online service providers and other third parties necessary to our business. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations. If we are not successful in establishing, maintaining and managing our personnel, systems, procedures and controls, our business will be materially and adversely affected.

Increases in labor costs and the new labor law in the PRC may adversely affect our business and our profitability.

A new labor contract law became effective on January 1, 2008 in the PRC. The new labor contract law imposes stricter requirements in terms of signing labor contracts, paying remuneration, stipulating probation and penalties and dissolving labor contracts. In addition, the *Regulations on Paid Annual Leave for Employees*, which became effective on January 1, 2008, provide that employees who have served more than one year for an employer are entitled to a paid annual leave and employees who waive such vocation at the request of employers shall be compensated by the employer. As a result, our labor costs and future disputes with our employees are expected to increase, which could adversely affect our profitability, business or results of operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet business and companies, including limitations on our ability to own key assets such as our website.

The Chinese government heavily regulates the Internet sector, including the legality of foreign investment in the Chinese Internet sector, the existence and enforcement of content restrictions on the Internet and the licensing and permit requirements for companies in the Internet industry. Because some of the laws, regulations and legal requirements with regard to the Internet are relatively new and evolving, their interpretation and enforcement involve significant uncertainties. In addition, the Chinese legal system is based on written statutes and prior court decisions can only be cited for reference but have little precedential value. As a result, in many cases it is difficult to determine what actions or omissions may result in liability. Issues, risks and uncertainties relating to China s government regulation of the Chinese Internet sector include the following:

We only have contractual control over our website in China; we do not own it due to the restriction of foreign investment in businesses providing value-added telecommunication services, including computer information services, MVAS or electronic mail box services.

Uncertainties relating to the regulation of the Internet business in China, including evolving licensing practices, give rise to the risk that permits, licenses or operations at some of our companies may be subject to challenge, which may be disruptive to our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us. For example, on July 13, 2006, MII issued *The Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunication Services* (the MII Circular 2006). According to the MII Circular 2006, since the FITE Regulation went into effect, some foreign investors have, by means of delegation of domain names and license of trademarks, conspired with domestic value-added telecom enterprises to circumvent the requirements of FITE Regulations and been engaged in value-added telecom services illegally. In order to further intensify the administration of FITEs, the MII Circular 2006 provides that (i) any domain name used by a value-added telecom carrier shall be legally owned by such carrier or its shareholder(s); (ii) any trademark used by a value-added telecom carrier shall be legally owned by the carrier or its shareholder(s); (iii) the operation site and facilities of a value-added telecom carrier shall be installed within the scope as prescribed by operating licenses obtained by the carrier and shall correspond to the value-added telecom services that the carrier has been approved to provide; and (iv) a value-added telecom carrier shall establish or improve the measures of ensuring safety of network information. As to the companies which have obtained operating licenses for value-added telecom services, they are required to conduct self-examination and self-correction according to the said requirements and report the result of such self-examination and self-correction to MII. Accordingly, Beijing SINA Internet Information Service Co., Ltd., a Chinese company controlled by the Company through contractual arrangement (the ICP Company) submitted the *Self-Correction Scheme of the ICP Company s Multi-regional Value-added Telecommunication Business*

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(the Self-Correction Scheme) to MII on November 17, 2006. Under the Self-Correction Scheme, (i) the domain name www.sina.com.cn mainly used by the ICP Company shall be transferred from Beijing SINA Information Technology Co., Ltd. (formerly known as Beijing Stone Rich Sight Information Technology Co., Ltd.), one of the Company s wholly owned subsidiaries (BSIT) to the ICP Company, and (ii) the trademark SINA (CHINESE CHARACTERS) used by the ICP Company shall be transferred from BSIT to the ICP Company. The trademark SINA (CHINESE CHARACTERS) and domain name www.sina.com.cn have been transferred to the ICP Company.

The numerous and often vague restrictions on acceptable content in China subject us to potential civil and criminal liability, temporary blockage of our website or complete cessation of our website. For example, the State Secrecy Bureau, which is directly responsible for the protection of state secrets of all Chinese government and Chinese Communist Party organizations, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information.

Because the definition and interpretation of prohibited content are in many cases vague and subjective, it is not always possible to determine or predict what and how content might be prohibited under existing restrictions or restrictions that might be imposed in the future. For example, in January 2005, the State Administration of Radio, Film and Television, which regulates radio and television stations in China (SARFT), issued a notice prohibiting commercials for MVAS related to fortune-telling from airing on radio and television stations, effective February 2005. This notice could also lead to further actions by other Chinese government authorities to prohibit the sale of such fortune-telling related SMS, which could have a material adverse effect on our financial position, results of operations, or cash flows. SARFT or other Chinese governmental authorities may prohibit the marketing of other MVAS via a channel we depend on to generate revenues, which could also have a material adverse effect on our financial position, results of operations or cash flows.

Certain Chinese governmental authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern Internet activities. The areas of regulation currently include, without limitation, online advertising, online news reporting, online publishing, online education, online gaming, online transmission of audio-visual programs, online health diagnosis and treatment, and the provision of industry-specific (e.g., drug-related) information over the Internet. Other aspects of our online operations, such as video podcasting or blog services may be subject to regulations in the future. Our operations may not be consistent with these new regulations when they are put into effect. As a result, we could be subject to severe penalties as discussed above, which could have a material adverse effect on our financial position and results of operations and cash flow. Recently promulgated regulations that govern the online transmission of audio-visual programs are the *Administrative Provisions on Internet Audio-visual Program Service* jointly promulgated by SARFT and MII on December 20, 2007 (the Audio-visual Program Provisions). Effective as of January 31, 2008, the Audio-visual Program Provisions stipulate, among others, that any entity engaged in Internet audio-visual program service must obtain a License for Online Transmission of Audio-visual Programs issued by SARFT or register with SARFT; an applicant for engaging in Internet audio-visual program service must be a state-owned entity or a state-controlled entity with full corporate capacity; and the business to be carried out by the applicant must satisfy the overall planning and guidance catalogue for Internet audio-visual program service determined by SARFT. SARFT and MII jointly held a press conference in February 2008 to answer questions with respect to the Audio-visual Program Provisions. In that press conference, SARFT and MII clarified that the websites that existed before the promulgation of the Audio-visual Program Provisions may, once they are registered with SARFT, continue operating audio-visual services so long as those websites have not been in violation of the laws and regulations. It is unclear based on the Audio-visual Program Provisions whether such requirements only apply to the new market entrants for operating Internet audio-visual program service or such requirements apply to both new applicants and entities that have already obtained the License for Online Transmission of Audio-visual Programs.

The Company s VIEs in China are not state-owned or state-controlled companies, and without the clarification of SARFT and MII made in the above-mentioned press conference they may not be qualified applicants for carrying out Internet audio-visual program services under the Audio-visual Program Provisions. The ICP Company currently holds a License for Online Transmission of Audio-visual Programs issued by SARFT valid through April 16, 2012, showing that the ICP Company has been approved to carry out online transmission service of audio-visual program within such validity term. According to the above-mentioned press conference, the ICP Company is entitled to continue operating its online transmission service of audio-visual program. Notwithstanding the foregoing, considering the requirements set out in the Audio-visual Program Provisions, it is uncertain whether the ICP Company can successfully procure the renewal of the License for Online Transmission of Audio-visual Programs after its expiration. Should any official explanations or implementation rules of the Audio-visual Program Provisions be promulgated by SARFT or MII explicitly forbidding any non-state-controlled entities from engaging in Internet audio-visual program service, SINA may be disqualified from operating online transmission of audio-visual programs after the License for Online Transmission of Audio-visual Programs currently held by the ICP Company expires.

The governing bodies of China s mobile industry from time to time issue policies that regulate the business practices relating to MVAS. We cannot predict the timing or substance of such new regulations, which may have a negative impact on our business.

The interpretation and application of existing Chinese laws, regulations and policies, the stated positions of MII and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Internet businesses in China, including our business. See *Government Regulation and Legal Uncertainties* below for more details.

In order to comply with PRC regulatory requirements, we operate our main businesses through companies with which we have contractual relationships but in which we do not have controlling ownership. If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be adversely affected.

The Chinese government restricts foreign investment in Internet-related and MVAS businesses, including Internet access, distribution of content over the Internet and MVAS. Accordingly, we operate our Internet-related and MVAS businesses in China through several VIEs that are PRC domestic companies owned principally or completely by certain of our PRC employees or PRC employees of our directly-owned subsidiaries. We control these companies and operate these businesses through contractual arrangements with the respective companies and their individual owners, but we have no equity control over these companies. Such restrictions and arrangements are prevalent in other PRC companies we have acquired. See *Item 4.C. Organizational Structure*.

We cannot be sure that the PRC government would view our operating arrangements to be in compliance with PRC licensing, registration or other regulatory requirements, including without limitation the requirements described in the MII Circular 2006, with existing policies or with requirements or policies that may be adopted in the future. If we are determined not to be in compliance, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our website, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. We may also encounter difficulties in obtaining performance under or enforcement of related contracts.

We rely on contractual arrangements with our VIEs for our China operations, which may not be as effective in providing control over these entities as direct ownership.

Because PRC regulations restrict our ability to provide Internet content and MVAS directly in China, we are dependent on our VIEs in which we have little or no equity ownership interest and must rely on contractual arrangements to control and operate these businesses. These contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, the VIEs could fail to take actions required for our business or fail to maintain our China websites despite their contractual obligation to do so. These companies are able to transact business with parties not affiliated with us. If these companies fail to perform under their agreements with us, we may have to rely on legal remedies under Chinese law, which we cannot be sure would be available. In addition, we cannot be certain that the individual equity owners of the VIEs would always act in the best interests of SINA, especially if they leave SINA.

Substantially all profits generated from our VIEs are paid to our subsidiaries in China through related party transactions under contractual agreements. We believe that the terms of these contractual agreements are in compliance with the laws in China. Due to the uncertainties surrounding the interpretation of the transfer pricing rules relating to related party transactions in China, it is possible that in the future tax authorities in China may challenge the prices that we have used for related party transactions among our entities in China. In the event the tax authorities challenge our VIE structure, we may be forced to restructure our business operation, which could have a material adverse effect on our business.

Even if we are in compliance with Chinese governmental regulations relating to licensing and foreign investment prohibitions, the Chinese government may prevent us from advertising or distributing content that it believes is inappropriate and we may be liable for such content or we may have to stop profiting from such content.

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet or through MVAS that it believes to violate Chinese law, including content that it believes is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any websites maintained outside China at its sole discretion. Even if we comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government were to take any action to limit or prohibit the distribution of information through our network or via our MVAS, or to limit or regulate any current or future content or services available to users on our network, our business could be significantly harmed.

Because the definition and interpretation of prohibited content is in many cases vague and subjective, it is not always possible to determine or predict what and how content might be prohibited under existing restrictions or restrictions that might be imposed in the future. At the end of July 2004, our IVR service was temporarily terminated by China Mobile for violating certain operating procedures. One of the violations cited in the notice for temporary termination was that we had provided inappropriate content to our mobile subscribers through our IVR service. We are not sure whether operators including China Mobile and China Unicom or the Chinese government will find our other mobile content inappropriate and therefore prevent us from operating the MVAS relating to such content in the future. If they prevent us from offering such services, our profit from MVAS will suffer.

In January 2005, SARFT, which regulates radio and television stations in China, issued a notice prohibiting commercials for MVAS related to fortune-telling from airing on radio and television stations effective in February 2005. SARFT or other Chinese government authorities may prohibit the marketing of other MVAS via a channel we depend on to generate revenues, which could have a material adverse effect on our financial position, results of operations or cash flows.

We are also subject to potential liability for content on our websites that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems. Furthermore, we are required to delete content that clearly violates the laws of China and report content that we suspect may violate Chinese law. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our websites.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our products is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards.

Third parties may initiate litigation against us alleging infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

The high cost of Internet access could hinder the growth of Internet users in China and thus hamper the expansion of our user base.

The cost of Internet access might prevent some users from accessing the Internet and thus cause the growth of Internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base and increase our attractiveness to online advertisers.

If we fail to scale our systems proportionally with the growing Internet population in China, our website traffic growth could be adversely affected.

The website traffic in China has experienced significant growth during the past few years. If we were unable to increase our online content and service delivering capacity accordingly, we might not be able to continuously grow our website traffic.

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Our operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters or unauthorized tampering with our systems.

The continual accessibility of websites and the performance and reliability of our network infrastructure are critical to our reputation and our ability to attract and retain users, advertisers and merchants. Any system failure or performance inadequacy that causes interruptions in the availability of our services or increases the response time of our services could reduce our appeal to advertisers and consumers. Factors that could significantly disrupt our operations include: system failures and outages caused by fire, floods, earthquakes, power loss, telecommunications failures and similar events; software errors; computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems; and security breaches related to the storage and transmission of proprietary information, such as credit card numbers or other personal information.

We have limited backup systems and redundancy. In the past, we experienced an unauthorized tampering of the mail server of our China websites which briefly disrupted our operations. Future disruptions or any of the foregoing factors could damage our reputation, require us to expend significant capital and other resources and expose us to a risk of loss or litigation and possible liability. We do not carry sufficient business interruption insurance to compensate for losses that may occur as a result of any of these events. Accordingly, our revenues and results of operations may be adversely affected if any of the above disruptions should occur.

We have contracted with third parties to provide content and services for our portal network and we may lose users and revenue if these arrangements are terminated.

We have arrangements with a number of third parties to provide content and services to our websites. In the area of content, we have relied and will continue to rely almost exclusively on third parties for content that we publish under the SINA brand. Although no single third-party content provider is critical to our operations, if these parties fail to develop and maintain high-quality and successful media properties, or if a large number of our existing relationships are terminated, we could lose users and advertisers and our brand could be harmed. We have recently experienced fee increases from some of our content providers. If this trend continues, our gross profit from online advertising may be adversely affected. In addition, the Chinese government has the ability to restrict or prevent state-owned media from cooperating with us in providing certain content to us, which will result in a significant decrease of the amount of content we can publish on our websites. We may lose users if the Chinese government chooses to restrict or prevent state-owned media from cooperating with us, in which case our revenues will be impacted negatively.

In the area of web-based services, we have contracted with third-party content providers for integrated web search technology to complement our directory and navigational guide, and with various third-party providers for our principal Internet connections. If we experience significant interruptions or delays in service, or if these agreements terminate or expire, we may incur additional costs to develop or secure replacement services and our relationship with our users could be harmed.

A substantial part of our non-advertising revenues is generated through MVAS where we depend on mobile network operators for services delivery and payment collection. If we are unable to continue these arrangements, our MVAS could be severely disrupted or discontinued. Furthermore, we are highly dependent on these mobile service providers for our profitability in that they can choose to increase their service fees at will.

We depend on a third party s proprietary and licensed advertising serving technology to deliver advertisements to our network. If the third party fails to continue to support its technology or if its services fail to meet the advertising needs of our customers and we cannot find an alternative solution on a timely basis, our advertising revenues could decline.

Concerns about the security of electronic commerce transactions and confidentiality of information on the Internet may reduce use of our network and impede our growth.

A significant barrier to electronic commerce and communications over the Internet in general has been a public concern over security and privacy, especially the transmission of confidential information. If these concerns are not adequately addressed, they may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. If a well-publicized Internet breach of security were to occur, general Internet usage could decline, which could reduce traffic to our destination sites and impede our growth.

The law of the Internet remains largely unsettled, which subjects our business to legal uncertainties that could harm our business.

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. The adoption of additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business.

Moreover, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain and may take years to resolve. For example, new tax regulations may subject us or our customers to additional sales and income taxes. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could significantly disrupt our operations or subject us to penalties.

We may be subject to claims based on the content we provide over our network and the products and services sold on our network, which, if successful, could cause us to pay significant damage awards.

As a publisher and distributor of content and a provider of services over the Internet, we face potential liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that we publish or distribute; the selection of listings that are accessible through our branded products and media properties, or through content and materials that may be posted by users in our classifieds, message board, chat room services, blog, video blog and other areas on our websites; losses incurred in reliance on any erroneous information published by us, such as stock quotes, analyst estimates or other trading information; unsolicited email, lost or misdirected messages, illegal or fraudulent use of email or interruptions or delays in email service; and product liability, warranty and similar claims to be asserted against us by end users who purchase goods and services through SINAMall and any future e-commerce services we may offer.

We may incur significant costs in investigating and defending any potential claims, even if they do not result in liability. Although we carry general liability insurance, our insurance may not cover potential claims of this type and may not be adequate to indemnify us against all potential liabilities.

We may be subject to litigation for user-generated content provided on our websites, which may be time-consuming to defend.

User-generated content (UGC) has become an important source of content to draw traffic to our website. Our UGC platforms, including blog, video podcasting and album, are open to the public for posting. Although we have required our users to post only decent and unobtrusive materials and have set up screening procedures, a third party may still find UGC postings on our website offensive and take action against us in connection with the posting of such information. As with other companies who provide UGC on their websites, we have had to deal with such claims in the past and anticipate that such claims will increase as UGC becomes more popular in China. Any such claim, with or without merit, could be time-consuming and costly to defend, and may result in litigation and divert management s attention and resources.

We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our business operations could be disrupted as we develop or license replacement software.

Pursuant to the *Regulations for the Administration of Commercial Encryption* promulgated at the end of 1999, foreign and domestic Chinese companies operating in China are required to seek approval from the Office of the State for Cipher Code Administration (OSCCA), i.e., the Chinese encryption regulatory authority, for the commercial encryption products they use; companies operating in China are allowed to use only commercial cipher code products approved by OSCCA and are prohibited to use self-developed or imported cipher code products without approval. In addition, all cipher code products shall be produced by those producers appointed and approved by OSCCA. In December 2005, OSCCA further released a series of rules, effective January 1, 2006, regulating many aspects of commercial cipher code products in detail, including development, production and sales.

Because these regulations do not specify what constitutes a cipher code product, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with OSCCA for, our current or future

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encryption software. If Chinese regulatory authorities request that we register our encryption software or change our current encryption software to an approved cipher code product produced by an appointed producer, it could disrupt our business operations.

Privacy concerns may prevent us from selling demographically targeted advertising in the future and make us less attractive to advertisers.

We collect personal data from our user base in order to better understand our users and their needs and to help our advertisers target specific demographic groups. If privacy concerns or regulatory restrictions prevent us from selling demographically targeted advertising, we may become less attractive to advertisers. For example, as part of our future advertisement delivery system, we may integrate user information such as advertisement response rate, name, address, age or email address, with third-party databases to generate comprehensive demographic profiles for individual users. In Hong Kong, however, we would be in violation of the *Hong Kong Personal Data Ordinance* unless individual users expressly consented to this integration of their personal information. The ordinance provides that an Internet company may not collect information about its users, analyze the information for a profile of the user s interests and sell or transmit the profiles to third parties for direct marketing purposes without the user s consent. If we are unable to construct demographic profiles of Internet users because they refuse to give consent, we will be less attractive to advertisers and our business could suffer.

We must rely on the Chinese government to develop China s Internet infrastructure and, if it does not develop this infrastructure, our ability to grow our business could be hindered.

The telecommunications infrastructure in China is not well developed. Although private sector ISPs exists in China, almost all access to the Internet is accomplished through ChinaNet, China s primary commercial network, which is owned and operated by China Telecom under the administrative control and regulatory supervision of MII. Although the Chinese government has announced plans to aggressively develop the national information infrastructure, we cannot assure you that this infrastructure will be timely developed. We have experienced slower response time and suffered outages in the past due to equipment and software downtime as well as bandwidth issues with operators. Although these instances have not had a material adverse effect on the Company s business, such instances could have a material impact on its business in the future. In addition, we have no guarantee that we will have access to alternative networks and services in the event of any disruption or failure. If the necessary infrastructure standards or protocols or complementary products, services or facilities are not timely developed by the Chinese government, the growth of our business could be hindered.

Political and economic conditions in Greater China and the rest of Asia are unpredictable and may disrupt our operations if these conditions become unfavorable to our business.

We expect to derive a substantial percentage of our revenues from the Greater China market. Changes in political or economic conditions in the region are difficult to predict and could adversely affect our operations or cause the Greater China market to become less attractive to advertisers, which could reduce our revenues. We maintain a strong local identity and presence in each of the regions in the Greater China market and we cannot be sure that we will be able to effectively maintain this local identity if political conditions were to change. The growth rate of the Chinese economy, and neighboring economies, has slowed significantly in recent months, exacerbated by the global financial crisis. It is uncertain how long the global financial crisis will last and how much impact it will have on the Chinese and neighboring economies. If declining economic growth rates persist in these countries, expenditures for Internet access, infrastructure improvements, advertising and MVAS could decrease, which could have a significant adverse effect on our business and our profitability.

Economic reforms in the region could also affect our business in ways that are difficult to predict. For example, since the late 1970s, the Chinese government has been reforming the Chinese economic system to emphasize enterprise autonomy and the utilization of market mechanisms. Although we believe that these reform measures have had a positive effect on the economic development in China, we cannot be sure that they will be effective or that they will benefit our business.

Future outbreaks of Severe Acute Respiratory Syndrome (SARS), H1N1 flu (Swine flu), Avian flu or other widespread public health problems could adversely affect our business.

Future outbreaks of SARS, Swine flu, Avian flu or other widespread public health problems in China and surrounding areas, where most of our employees work, could negatively impact our business in ways that are hard to predict. Prior experience with the SARS virus suggests that a future outbreak of SARS, Swine flu, Avian flu or other widespread public health problems may lead public health authorities to enforce quarantines, which could result in closures of some of our offices and other disruptions of our operations. A future outbreak of SARS, Swine flu, Avian flu or other widespread public health problems could result in the reduction of our advertising and fee-based revenues.

We have limited business insurance coverage.

The insurance industry in China is still young and the business insurance products offered in China are limited. We do not have any business liability or disruption insurance coverage for our operations. Any business disruption, litigation or natural disaster may cause us to incur substantial costs and divert our resources.

Our significant amount of deposits in certain banks in China may be at risk if these banks go bankrupt or otherwise not have the liquidity to pay us during our deposit period.

As of December 31, 2008, we have approximately $361.6 million in cash and other bank deposits, such as time deposits and bank notes, with large domestic banks in China. These cash and bank deposits constitute about 60% of our total cash, cash equivalent and short-term investments as of December 31, 2008. The terms of these deposits are, in general, up to twelve months. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors interests. However, China promulgated a new Bankruptcy Law in August 2006, which came into effect on June 1, 2007, which contains a separate article expressly stating that the State Council may promulgate implementation measures for the bankruptcy of Chinese banks based on the Bankruptcy Law. Under the new Bankruptcy Law, a Chinese bank may go bankrupt. In addition, since China s concession to the World Trade Organization (WTO), foreign banks have been gradually permitted to operate in China and have been strong competitors against Chinese banks in many aspects, especially since the opening of renminbi business to foreign banks in late 2006. Therefore, the risk of bankruptcy of those Chinese banks in which we have deposits has increased. In the event of bankruptcy of any one of the banks which holds our deposits, we are unlikely to claim our deposits back in full since we are unlikely to be classified as a secured creditor based on PRC laws.

If tax benefits available to us in China are reduced or repealed, our results of operations could suffer significantly and your investment in our shares may be adversely affected.

We are incorporated in the Cayman Islands where no income taxes are imposed for business operated outside of the Cayman Islands. We have operations in four tax jurisdictions including China, the U.S., Hong Kong and Taiwan. For the U.S., Hong Kong and Taiwan, we have incurred net accumulated operating losses for income tax purposes. We believe that it is more likely than not that these net accumulated operating losses will not be utilized to offset taxable income in the future and hence we have not recognized income tax benefits for these locations. We do not expect that we will record any income tax provisions for our operations in the U.S., Hong Kong and Taiwan in the foreseeable future.

We generated substantially all our net income from our China operations. Our China operations are conducted through various subsidiaries and VIEs.

Due to our operation and tax structures in the PRC, we have entered into technical and other service agreements between our directly-owned subsidiaries and our VIEs in the PRC. We incur a business tax of up to 5% when our directly-owned subsidiaries receive the fees from the VIEs pursuant to such service agreements, which we include in our operating expenses as the cost of transferring economic benefit generated from these VIEs. Due to the uncertainties surrounding the interpretation of the tax transfer pricing rules relating to related party transactions in the PRC, it is possible that tax authorities in the PRC might in the future challenge the transfer prices that we used for the related party transactions among our entities in the PRC.

Beginning January 1, 2008, the new Enterprise Income Tax Law (the EIT Law) and the Implementing Rules of the EIT Law (the Implementing Rules) approved by the State Council became effective in China, which require, among other things, enterprises in China to submit their annual enterprise income tax returns together with a report on transactions with their affiliates to the relevant tax authorities. The EIT law and the Implementing Rules emphasize the arm s length basis for transactions between related entities. If PRC tax authorities were to determine that our transfer pricing structure were not on an arm s length basis and therefore constitute a favorable transfer pricing, they could request that our VIEs adjust their taxable income upward for PRC tax purposes. Such a pricing adjustment may not reduce the tax expenses of our subsidiaries but could adversely affect us by increasing our VIEs tax expenses, which could subject our VIEs to late payment fees and other penalties for underpayment of taxes, and/or could result in the loss of tax benefits available to our subsidiaries in China.

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The EIT Law supplemented by the Implementing Rules supersedes the previous Income Tax Law (the Previous IT Law) and unifies the enterprise income tax rate for foreign-invested enterprises (FIEs) and domestic enterprises at 25%. New and high technology enterprises will continue to enjoy a preferential tax rate of 15%, but must meet the criteria defined under the EIT Law and related regulations. The EIT Law provides for a five-year transitional period for certain entities that enjoyed a favorable income tax rate of less than 25% and/or a preferential tax holiday under the Previous IT Law and was established before March 16, 2007, during which period the applicable enterprises income tax rate shall gradually increase to 25%. In addition, the EIT Law provides grandfather treatment for new and high technology enterprises that received special tax holidays under the Previous IT Law, which allows them to continue to enjoy their tax holidays until expiration. In December 2008, two of our subsidiaries in China were qualified as new and high technology enterprises under the EIT Law. In addition, certain VIEs in China enjoy a favorable income tax rate of less than 25%. According to the EIT Law and the Administration Measures for Recognition of New and High Technology Enterprises, which was jointly promulgated by the Ministry of Science & Technology, the Ministry of Finance, and the State Administration of Taxation on April 14, 2008, the new and high technology enterprise status of our two subsidiaries is subject to an annual review and may be overturned by the Municipal Science & Technology Commission in the future. The EIT Law is relatively new and implementation practices are still being defined. If tax benefits available to us as new and high technology enterprises in China are reduced or repealed, our net effective tax rate may increase to as high as 28%.

The EIT Law also provides that enterprises established under the laws of foreign countries or regions but whose de facto management body is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely defines the location of the de facto management body as the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located. Based on a review of surrounding facts and circumstances, we do not believe that it is likely that our operations outside the PRC should be considered a resident enterprise for PRC tax purposes. However, due to limited guidance and implementation history of the EIT Law, if SINA is treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on worldwide income at a uniform tax rate of 25% retroactive to January 1, 2008.

We may incur a significant withholding tax should we decide to distribute earnings made on or after January 1, 2008, outside of the PRC.

The new EIT Law imposes a 10% withholding income tax on dividends generated on or after January 1, 2008 and distributed by a resident enterprise to its foreign investors, if such foreign investors are considered as non-resident enterprise without any establishment or place within China or if the received dividends have no connection with such foreign investors establishment or place within China, unless such foreign investor s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Such withholding income tax was exempted under the Previous IT Law. The Cayman Islands, where we are incorporated, does not have such tax treaty with China. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE to its foreign investors in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). A majority of our subsidiaries in China are directly invested and held by Hong Kong registered entities. If we are regarded as a non-resident enterprise and our Hong Kong entities are regarded as resident enterprises, then our Hong Kong entities may be required to pay a 10% withholding tax on any dividends payable to us. If our Hong Kong entities are regarded as non-resident enterprises, then our subsidiaries in China will be required to pay a 5% withholding tax for any dividends payable to our Hong Kong entities. In either case, the amount of funds available to us, including the payment of dividends to our shareholders, could be materially reduced. In addition, because there remains uncertainty regarding the concept of the place of de facto management body, if we are regarded as a PRC resident enterprise, under the EIT Law, any dividends to be distributed by us to our non-PRC shareholders will be subject to PRC withholding tax. We also cannot guarantee that any gains realized by such non-PRC shareholders from the transfer of our shares will not be subject to PRC withholding tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC shareholders or any gains realized by our non-PRC shareholders from transfer of the shares, their investment in our shares may be materially and adversely affected. The current policy approved by our Board allows us to distribute PRC earnings offshore only if we do not have to pay a dividend tax. Such policy may require us to reinvest all earnings made since 2008 onshore indefinitely or be subject to a significant withholding tax should our policy change to allow for earnings distribution offshore.

Restrictions on paying dividends or making other payments to us bind our subsidiaries and VIEs in China.

We are a holding company and do not have any assets or conduct any business operations in China other than our investments in our entities in China, including SINA.com Technology (China) Co., Ltd. (STC), Beijing New Media Information Technology Co.

Ltd., Fayco Network Technology Development (Shenzhen) Co. Ltd. and Shanghai SINA Leju Information Technology Co. Ltd., and our VIEs. As a result, if our non-China operations require cash from China, we would depend on dividend payments from our subsidiaries in China for our revenues after they receive payments from our VIEs in China under various services and other arrangements. We cannot make any assurance that our subsidiaries in China can continue to receive the payments as arranged under our contracts with those VIEs. To the extent that these VIEs have undistributed after-tax net income, we have to pay tax on behalf of the employees when we try to distribute the dividend from these local entities in the future. Such withholding individual income tax rate is 20%. In addition, under Chinese law, our subsidiaries are only allowed to pay dividends to us out of their distributable earnings, if any, as determined in accordance with Chinese accounting standards and regulations. Moreover, our Chinese subsidiaries are required to set aside at least 10% of their respective after-tax profit each year, if any, to fund certain mandated reserve funds, unless these reserves have reached 50% of their registered capital. These reverse funds are not payable or distributable as cash dividends.

The Chinese government also imposes controls on the convertibility of renminbi into foreign currencies and the remittance of currency out of China in certain cases. We have experienced and may continue to experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See *Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if Chinese renminbi were to decline in value, reducing our revenues and profits in U.S. dollar terms.* If we or any of our subsidiaries are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to effectively finance our operations or pay dividends on our ordinary shares.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if Chinese renminbi were to decline in value, reducing our revenues and profits in U.S. dollar terms.

Our reporting currency is the U.S. dollar and our operations in China, Hong Kong, Taiwan use their respective local currencies as their functional currencies. The majority of our revenues derived and expenses incurred are in Chinese renminbi with a relatively small amount in New Taiwan dollars, Hong Kong dollars and U.S. dollars. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the renminbi depends to a large extent on Chinese government policies and China s domestic and international economic and political developments, as well as supply and demand in the local market. Starting July 2005, the Chinese government changed its policy of pegging the value of Chinese renminbi to the U.S. dollar. Under the new policy, Chinese renminbi has fluctuated within a narrow and managed band against a basket of certain foreign currencies. As a result of this policy change, Chinese renminbi appreciated approximately 6.5% and 6.4% against the U.S. dollar in 2007 and 2008, respectively. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese renminbi against the U.S. dollar. We can offer no assurance that Chinese renminbi or any other foreign currency will be stable against the U.S. dollar.

The income statements of our China, Hong Kong and Taiwan operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions results in reduced revenues, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of renminbi, Hong Kong Dollar and New Taiwan Dollar denominated transactions results in increased revenues, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity s functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of Chinese renminbi into foreign currency for current account items, conversion of Chinese renminbi into foreign exchange for most of the capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE. These approvals, however, do not guarantee the availability of foreign currency. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese renminbi in the future. Because a significant amount of our future revenues may be in the form of Chinese renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in Chinese renminbi to fund our business activities outside China, or to repay non-renminbi-denominated obligations, including our debt obligations, which would have a material adverse effect on our financial condition and results of operation.

We have $99 million of zero-coupon, convertible, subordinated notes due 2023, or possibly earlier upon a change of control, which we may not be able to repay in cash and could result in dilution of our basic earnings per share.

In July 2003, we issued $100 million of zero coupon convertible subordinated notes due July 15, 2023. As of December 31, 2008, the outstanding balance of our convertible notes was $99 million. On July 15 annually from 2007 to 2013, and on July 15, 2018, or upon a change of control, holders of the notes may require us to repurchase all or a portion of the notes for cash. In addition, each $1,000 principal amount of the notes is convertible into 38.7741 shares of our ordinary shares prior to July 15, 2023 if the sale price of our ordinary shares issuable upon conversion of the notes reaches a specified threshold or specified corporate transactions have occurred. One of the conditions for conversion of the notes to SINA ordinary shares is that the market price of SINA ordinary shares reaches a specified threshold for a defined period of time. The specified thresholds are (i) during the period from issuance to July 15, 2022, if the sale price of SINA ordinary shares, for each of any five consecutive trading days in the immediately preceding fiscal quarter, exceeds 115% of the conversion price per ordinary share, and (ii) during the period from July 15, 2022 to July 15, 2023, if the sale price of SINA ordinary shares on the previous trading day is more than 115% of the conversion price per ordinary share. For the three months ended December 31, 2008, the sale price of SINA ordinary shares did not exceed the threshold set forth in item (i) above for the required period of time. Therefore, the notes are not convertible into SINA ordinary shares during the three months ending March 31, 2009. Upon a conversion, we may choose to pay the purchase price of the notes in cash, ordinary shares, or a combination of cash and ordinary shares. We may not have enough cash on hand or have the ability to access cash to pay the notes if holders ask for repayment on the various put dates, or upon a change of control, or at maturity. In addition, the purchase of our notes with our ordinary shares or the conversion of the notes into our ordinary shares could result in dilution of our basic earnings per share.

Changes to accounting pronouncements, including SFAS 123R, or taxation rules or practices, including FIN 48, may adversely affect our reported results of operations or how we conduct our business.

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. For example, we adopted the Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) starting January 1, 2006. SFAS 123R requires us to measure compensation costs for all share-based compensation at fair value and take compensation charges equal to that value. The method that we use to determine the fair value of share options is based upon, among other things, the volatility of our ordinary shares. The method that we use to determine the fair value of restricted share units is based upon the market price of our ordinary shares on the date of the grant. The price of our ordinary shares has historically been volatile. Therefore, the requirement to measure compensation costs for all share-based compensation under SFAS 123R could negatively affect our profitability and the trading price of our ordinary shares. SFAS 123R and the impact of expensing on our reported results could also limit our ability to continue to use share options or other share-based instruments as an incentive and retention tool, which could, in turn, hurt our ability to recruit employees and retain existing employees. Other new accounting pronouncements or taxation rules, such as FIN 48, the EIT Law in China which was effective January 1, 2008, and various interpretations of accounting pronouncement or taxation practice have been adopted and may be adopted in the future. These accounting standard and tax regulation changes, future changes and the uncertainties surrounding current practices and implementation procedures may adversely affect our reported financial results or the way we conduct our business.

We may be required to record a significant charge to earnings if we are required to reassess our goodwill or other amortizable intangible assets arising from acquisitions.

We are required under GAAP to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually, or more frequently, if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower or declining growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined.

Prior to 2008, our MVAS business had been on a continuous decline in recent years. We used a blended market and income approach for the assessment of mobile goodwill and the assumptions used were based on the information available to us at the time. Further decline in the performance of our mobile operations, in the price over earnings multiples of our peers in the MVAS industry and other factors may require us to record a significant charge to earnings if an impairment is determined at a future date. As of December 31, 2008, goodwill related to our MVAS operation was approximately $68.9 million.

As of December 31, 2008, other goodwill and intangible assets were approximately $25.6 million. Exacerbated by the global financial crisis, our stock price has been volatile in the past year. The closing price of our stock price as of June 10, 2009, was $30.06. A significant decline in the performance of our business or our stock price may result in a material impairment charge to earnings.

We may be required to record a significant charge to earnings from declines in fair value of our marketable securities if such declines become other than temporary or if we are unable to hold such investments until maturity.

Our marketable securities are classified as available-for-sale in short term investments and are reported at fair value with net unrealized losses recorded as accumulated other comprehensive income in shareholders equity. The losses incurred on these investments are primarily related to changes in interest rates. We consider these declines to be temporary in nature. If factors arise that would require us to account for the declines as other than temporary or if we are unable to hold the investments until the carrying value is recovered, we may need to recognize the declines as realized losses with a charge to income.

While we believe that we currently have adequate internal control procedures in place, we are still exposed to potential risks from legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002.

Under the supervision and with the participation of our management, we have evaluated our internal controls systems in order to allow management to report on, and our registered independent public accounting firm to attest to, our internal controls, as required by Section 404 of the Sarbanes-Oxley Act. We have performed the system and process evaluation and testing required in an effort to comply with the management certification and auditor attestation requirements of Section 404. As a result, we have incurred additional expenses and a diversion of management s time. If we are not able to continue to meet the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NASDAQ. Any such action could adversely affect our financial results and the market price of our ordinary shares.

Our stock price has been historically volatile and may continue to be volatile, which may make it more difficult for you to resell shares when you want at prices you find attractive.

The trading price of our ordinary shares has been and may continue to be subject to considerable daily fluctuations. During the twelve months ended December 31, 2008, the closing sale prices of our ordinary shares on the NASDAQ Global Select Market ranged from $21.57 to $56.21 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, new governmental restrictions or regulations and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for China-related and Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our ordinary shares, regardless of our operating performance.

The Chinese legal system has inherent uncertainties that could limit the legal protections available to you.

Our contractual arrangements with our VIEs in China are governed by the laws of the PRC. China s legal system is based upon written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties, and therefore you may not have legal protections for certain matters in China.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us.

We conduct our operations in China and a significant portion of our assets is located in China. In addition, some of our directors and executive officers reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon those directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China recognizes and enforces judgment of foreign courts based on treaties on recognizing and enforcing each other s judgment or the reciprocal principle with foreign countries. China does not have treaties with the U.S. and some other countries that provide for the reciprocal recognition and enforcement of judgment of courts. As a result, recognition and enforcement in China of judgments of a court in these jurisdictions may be difficult or impossible.

We may be classified as a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the nature of our income and assets, we may be classified as a Passive Foreign Investment Company (PFIC), by the United States Internal Revenue Service for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to you. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to more burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis, and those determinations depend on the composition of our income and assets, including goodwill, from time to time. Although in the past we have operated our business and in the future we intend to operate our business so as to minimize the risk of PFIC treatment, you should be aware that certain factors that could affect our classification as PFIC are out of our control. For example, the calculation of assets for purposes of the PFIC rules depends in large part upon the amount of our goodwill, which in turn is based, in part, on the then market value of our shares, which is subject to change. Similarly, the composition of our income and assets is affected by the extent to which we spend the cash we have raised on acquisitions and capital expenditures. In addition, the relevant authorities in this area are not clear and so we operate with less than clear guidance in our effort to minimize the risk of PFIC treatment. Therefore, we cannot be sure whether we are not and will not be a PFIC for the current or any future taxable year. In the event we are determined to be a PFIC, our stock may become less attractive to U.S. investors, thus negatively impacting the price of our stock.

Anti-takeover provisions in our charter documents and SINA s shareholder rights plan may discourage our acquisition by a third party, which could limit our shareholders opportunity to sell their shares at a premium.

Our Amended and Restated Memorandum and Articles of Association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change in control transactions. These provisions could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or from otherwise engaging in a merger or similar transaction with us.

For example, our Board of Directors has the authority, without further action by our shareholders, to issue up to 3,750,000 preference shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preference shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if the Board of Directors issues preference shares, the market price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected. Similarly, the Board of Directors may approve the issuance of debentures convertible into voting shares, which may limit the ability of others to acquire control of us.

In addition, we have adopted a shareholder rights plan pursuant to which our existing shareholders would have the right to purchase ordinary shares from the Company at half the market price then prevailing in the event a person or group acquires more than 10% of our outstanding ordinary shares on terms our Board of Directors does not approve. As a result, such rights could cause substantial dilution to the holdings of the person or group which acquires more than 10%. Accordingly, the shareholder rights plan may inhibit a change in control or acquisition and could adversely affect a shareholder s ability to realize a premium over the then prevailing market price for the ordinary shares in connection with such a transaction.

Item 4. *Information on the Company*

A. History and Development of the Company

SINA Corporation was founded in March 1999 through the merger of Beijing SINA Information Technology Co. Ltd. and California-based SINANET.com. In April 2000, the Company completed its initial public offering and was listed on the NASDAQ market. Incorporated in the Cayman Islands, SINA is headquartered in Shanghai, China. The

Company has offices in the U.S., Hong Kong, Taiwan and throughout the PRC and operates a network of four websites around the world. SINA s principal place of operations is located at 20/F Beijing Ideal International Plaza, No. 58 Northwest 4th Ring Road, Haidian District, Beijing, 100080, People s Republic of China. The telephone number of SINA at this address is +8610 8262 8888.

The primary focus of our operations is in China, where we derive the majority of our revenues. From 1999 to 2001, our growth was mainly driven by our online advertising business, which generated the majority of our total revenues. We began offering MVAS under arrangements with third-party operators in the PRC in late 2001 and have up until 2004 experienced significant growth in MVAS revenues. We have grown organically and through acquisitions and partnerships in recent years. For example, we acquired Memestar Limited in 2003, Crillion Corporation in 2004 and Davidhill Capital Inc. in 2004. In 2008, we spun off our real estate and home decoration channels into a subsidiary and sold a 34% interest to eHouse (China) Holdings Limited (eHouse). In December 2008, we entered into a definitive agreement with Focus to acquire substantially all of the assets of Focus s digital out-of-home advertising networks, including LCD display network, poster frame network and in-store network. The transaction is subject to customary closing conditions and certain regulatory approvals and, if approved, is expected to be completed in the third quarter of 2009.

Our business operations in China are conducted primarily through significant majority-owned subsidiaries, including Sina.com Technology (China) Co. Ltd., Beijing New Media Information Technology Co. Ltd., Fayco Network Technology Development (Shenzhen) Co. Ltd. and Shanghai SINA Leju Information Technology Co. Ltd., and significant VIEs, including Beijing SINA Internet Information Service Co., Ltd., Guangzhou Media Message Technologies, Inc., Beijing Star-Village Online Cultural Development Co., Ltd., Shenzhen Wang Xing Technology Co., Ltd., Beijing SINA Infinity Advertising Co., Ltd. and Beijing Yisheng Leju Information Services Co., Ltd.

B. Business Overview

Overview

SINA is an online media company and MVAS provider in the People s Republic of China and the global Chinese communities. With a branded network of localized websites targeting Greater China and overseas Chinese, the Company provides services through five major business lines including SINA.com (online news and content), SINA Mobile (MVAS), SINA Community (Web 2.0-based services and games), SINA.net (search and enterprise services) and SINA E-Commerce (online shopping). Together these business lines provide an array of services including region-focused online portals, MVAS, search and directory, interest-based and community-building channels, free and premium email, blog services, audio and video streaming, game community services, classified listings, fee-based services, e-commerce and enterprise e-solutions. The Company generates the majority of its revenues from online advertising and MVAS offerings and, to a lesser extent, from search and fee-based services.

SINA offers distinct and targeted content on each of its region-specific websites and a range of complementary offerings designed to broaden its user base and increase user traffic. The Company aims to become the media platform of choice for Internet users to research and retrieve information, share opinions and build social networks and for businesses to market and promote their products. SINA offers a range of complementary offerings, all centered on its core content business that are intended to enhance the attractiveness of its portal business and strengthen its reach in the community.

In 2008, SINA continued its focus on building out our multimedia, multi-devices and community-building strategy. The Company focused on integrating multimedia and interactive features into its information and entertainment platform, injecting more social-networking elements into its user-generated and community-based product portfolio as well as continuing to invest in its WAP portal business. In the area of news coverage, the Company further solidified its leading position in China s Internet space by successfully delivering multimedia, interactive coverage on several major events, including UEFA Euro 2008, the Sichuan earthquake and the 2008 Beijing Olympics. According to China Rank, the only government authorized online traffic ranking site in China, SINA s Olympic coverage ranked No. 1 in average daily unique visitors in news, forums and blogs.

Market Opportunities

SINA s primary focus is on the China market. The success of our business is tied to the size and vitality of China s economy. In a preliminary study published by the Chinese National Bureau of Statistics, China s gross domestic product (GDP) reached $4.4 trillion in 2008, representing a 9% year-on-year growth rate. The latest survey by China Internet Network Information Center (CNNIC) shows that the number of Internet users in China has grown 42% from last year to 298 million as of the end of 2008. The large user base makes China an attractive market for the Company to expand its product offerings and to grow its revenue streams. According to the latest survey by CNNIC, 91% of the

Internet users in China have access to broadband. The large broadband adoption creates opportunity for the online industry, particularly in the areas of audio and video-based products and services, such as rich media and video advertising. In addition, based on a January 2009 report issued by China s Ministry of Information Industry, the number of mobile phone users has

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increased 17% year-over-year to 641 million at the end of 2008. During 2008, the Chinese government issued the long-awaited 3G wireless licenses, which over time will level the playing field among the operators, improve the performance of Internet access via mobile phones and significantly broaden the reach of the mobile Internet in China. We believe this will create additional business opportunities for us going forward.

Properties and Product Offerings

SINA provides services through five major business lines, including SINA.com, SINA Community, SINA Mobile, SINA.net and SINA E-Commerce, which are categorized into two revenue streams advertising and non-advertising. The following table presents an overview of our revenue reporting structure as well as its vertical properties and services:

Revenue Classification					
Properties and Services	Advertising (online advertising) Non-advertising (MVAS, search, and fee-based services)				
	SINA.com	**SINA Community**	**SINA Mobile**	**SINA.net**	**SINA E-Commerce**
	§ News and online	§ Blog	§ SMS	§ Search	§ Online Shopping
	§ Vertical content	§ Podcasting	§ IVR	§ Enterprise solutions	
	§ Online advertising	§ Album	§ MMS		
		§ Bar	§ WAP		
		§ Notepad	§ CRBT		
		§ Instant	§ KJAVA		
		§ Messaging			
		§ Group			
		§ BBS			
		§ Email			
		§ Post			
		§ Space			

SINA.com

SINA is an online brand advertising property in China. SINA employs a multi-pronged sales strategy that targets both short-term revenue opportunities such as banner advertising campaigns, as well as longer-term, higher-value contracts that include integrated marketing packages. The Company s advertising product offerings consist of banner, button, text-link advertisements that appear on pages within the SINA network, channel and promotional sponsorships, and advertising campaign design and management services.

The Company s primary target client base for advertising and sponsorships consists of global corporations doing business in Greater China and domestic companies in each of the regions SINA operates in, to which the Company sells from both its corporate and regional headquarters. Global corporations are typically Fortune 1000 companies that employ a global approach to their branding, marketing and communications programs. Regional companies consist of medium to large companies that are focused on specific geographic and demographic markets, such as Chinese Americans or Taiwanese, and smaller companies whose markets are within a local territory, such as Beijing or Hong Kong. In 2008, SINA had approximately 1,220 advertisers in China. Advertisers from the automobile, real estate and financial sectors contributed to approximately 57% of the Company s total online advertising revenues in 2008.

SINA s portal network consists of four destination websites dedicated to its users across the globe: Mainland China (www.sina.com.cn), Taiwan (www.sina.com.tw), Hong Kong (www.sina.com.hk), and overseas Chinese in North America (www.sina.com). Each destination site consists of Chinese-language news and content organized into interest-based channels. The sites offer extensive community and communication services and sophisticated web navigation capability through SINA search and directory services.

SINA.com offers a variety of free interest-based channels that provide region-focused format and content. The most popular channels include:

SINA News. SINA News aggregates feeds from news providers, bringing together content from media companies, such as CCTV, China Beijing TV Station (BTV), China News, Agence France-Presse (AFP), Associated Press, Reuters, Getty Images, China

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Daily, Nanfang Daily Group, Beijing News, Xinhua Net and Xinhua News Agency. Through SINA News, users have easy access to breaking news coverage from multiple sources and points of view.

SINA Sports. SINA Sports offers multimedia news and information on a wide range of sporting events from home and abroad. SINA Sports features domestic and international soccer matches, NBA games, general sports as well as exciting coverage of world- famous sports stars and teams.

SINA Entertainment. SINA Entertainment contains extensive coverage of local and international entertainment news and events, including dining, movies, television programs, plays, operas, as well as popular and classical music.

SINA Auto. SINA Auto offers the latest automobile-related news and service information to provide car buyers and automobile enthusiasts with the most current information on automotive pricing, reviews and featured guides.

SINA Finance. SINA Finance provides business news coverage and personal finance columns. SINA Finance also offers stock quotes from the major exchanges around the world, including U.S., Shanghai, Shenzhen and Hong Kong stock exchanges, as well as breaking news from individual listed companies and market trend analysis.

SINA Eladies. SINA Eladies serves as an interactive platform for fashion-conscious users to share comments and ideas on a range of topics, such as health, cosmetics and beauty. SINA Eladies also provides real-time coverage of major world fashion events, bringing users the latest on styles and trends.

SINA Luxury. SINA Luxury caters to the increasing demand for luxury goods and high-end services in China. SINA Luxury covers a variety of luxurious topics including wines, cigars, top-brand apparels and accessories as well as services aimed at high net worth populations.

SINA Real Estate. SINA Real Estate provides the latest news, pricing and availability of new, used and rental properties. It also features interactive electronic maps, discussion forums and how-to guides for buyers, sellers and owners of properties on topics ranging from home buying, selling, furnishing and repairs.

SINA Technology. SINA Technology provides updates on recent activities of high-tech corporations as well as industry trends in China and on technology markets worldwide.

SINA Digital. Spun off from SINA technology channel in July 2008, SINA Digital offers in-depth reviews of digital products, including mobile phones, desktops and notebook computers, digital cameras, MP3 players and televisions. Product search and software download services are also provided on this channel.

SINA Music. SINA Music is an integrated music community platform that is built on our license agreements with the largest global and domestic music labels, such as Time Warner, Sony Music, EMI, and Rock Music. This platform provides music lovers with free on-demand streaming of CD-quality, licensed songs and music videos, information and updates from the music industry, theme-based online communities and live broadcast of music concerts.

SINA Game. SINA Game serves as an interactive platform that provides users with downloads and gateway access to popular online games, information and updates on popular online and PC games and value-added application tools, all aimed at enhancing the overall multimedia community experiences of China s online game players.

SINA Tools. Launched in November 2008, SINA Tools provides Internet users with a wide range of practical online tools, such as weather forecasts, metric conversion, Internet connection speed testing, online translation and digital map service that allows users to search for businesses, addresses and places of interest.

SINA Video. SINA Video is an online video platform that provides the latest, high-quality, easy-to-use interactive video products. SINA Video is divided into various vertical categories, including News, Entertainment, Music, Sports, Financial, Life, VIP Chat, Movie Premieres and SINA TV. The latter includes streaming of a broad range of television programs both in real time and on an on-demand basis.

SINA WAP. SINA WAP is a mobile portal offering a world of free information and entertainment. Users can access the very latest information around the world and perform web searches via mobile phones.

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SINA Community

SINA Community aims at providing a user-generated platform for information and entertainment and promoting the social networking experience for SINA netizens.

SINA Blog. Launched in 2005, SINA Blog has quickly become a popular platform for Chinese bloggers to read and publish original writings. Building on SINA s brand prestige and large user traffic, SINA Blog represents a destination for celebrities to maintain a direct dialog with their fans.

SINA Podcasting. SINA Podcasting, launched in December 2006, allows users to upload, publish and manage their audio-visual information in addition to the basic text and image transfer provided by SINA Blog. SINA Podcast serves as a personal multimedia platform for users to create their individual online portals.

SINA Album. Launched in July 2007, SINA Album is a photo sharing platform where users can upload, store, download and share their photos. It also supports social networking functions such as commenting on the photos and tagging friends.

SINA Bar. Launched in December 2007, SINA Bar offers a community-based platform for users to exchange views and share comments on common interest areas. SINA Bar is different from SINA BBS in that it allows users to initiate topics on their own.

SINA Notepad. SINA Notepad was created in April 2007 as an inner-community messaging tool that allows users to send private messages to other community members.

SINA UC. Apart from the traditional text-based instant messaging, SINA UC also provides users with audio and video-based instant messaging tools to enable multimedia social experiences.

SINA Group. SINA Group builds on existing SINA Community services, such as SINA Blog, to create user-maintained and supported online communities.

SINA BBS. SINA BBS hosts topic-specific discussion forums in Chinese language.

SINA Mail. SINA Mail services include Free Email, VIP Mail and Corporate Email for enterprise users. SINA Mail supports both POP3 and SMTP access and provides users with year-round anti-spam and anti-virus protection.

SINA Post. As part of SINA s classified ad service, SINA Post was launched in 2005 to allow free posting of advertisements for individual and enterprise users. SINA s proprietary classified search technology allows users to find data and information.

SINA Space. Launched in March 2008, SINA Space serves as a social networking platform that integrates a broad array of our existing community services including Blog, Podcast, Album, BBS, Groups and SINA Bar. Through this platform, users can form various types of social networking relationships and share user-generated contents within their networks. SINA Space also supports web widgets provided by SINA as well as other websites.

SINA Mobile

SINA s MVAS, launched in April 2002, allows users to receive news and information, download ring tones and pictures, and participate in dating and friendship communities. Users can order these services through the SINA website or through their mobile phones on a monthly subscription or pay-per-message basis. SINA offers MVAS through a wide range of products such as content downloading, news subscription and mobile games, on multiple platforms such as SMS, MMS, WAP, IVR, CRBT and KJAVA.

SINA s competitive advantage in MVAS comes from its online and offline marketing channels. As a leading online media company in China, SINA leverages its large number of unique users and online content portfolio. Offline, SINA has a large local sales team that covers the majority of the provinces and municipalities in China as well as a significant presence in local TV, radio and print advertising. SINA has established content partnerships with certain international record label companies to provide image and music downloads. SINA Mobile provides MVAS mainly through operator platforms, including the Monternet platform of China Mobile and the UNI-Info platform of China Unicom. SINA also works closely with provincial operators to jointly promote its MVAS offerings.

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SINA s MVAS can be categorized into three main categories: news and information, community, and multimedia downloads:

News and Information	Community	Multimedia Downloads
Headline news	Games and quizzes	Ring tones
Financial news	Educational products	Logos and pictures
Technology news		Screen savers
Sports news		
Weather forecast		
Jokes		

SINA provides its MVAS mainly through the following product lines:

SINA SMS. As many mobile phones are able to display and send text in Chinese, SINA developed a suite of short messaging services that includes user-customized information subscription, personal greetings, customized mobile phone screen decoration, personalized ring tones and mobile games.

SINA MMS. Using general packet radio service (GPRS) technology, MMS enables users to download color pictures and sophisticated ring tones, as well as transmit more data per message. SINA MMS multimedia functionalities enable content and information exchanges in the form of text, graphics, audio and data.

SINA IVR. IVR (Interactive Voice Response) refers to all voice-activated information retrieval services. Users can obtain information via their mobile phones by dialing a list of fixed numbers and following a set of pre-recorded messages. Sample services include weather forecasting and data searching. IVR offers applications in the areas of interactive games and professional products.

SINA WAP. SINA s WAP services use GPRS technology to provide users with news and other topical information, multimedia downloads, dating and community services and mobile search services.

SINA CRBT. CRBT refers to the ring tone heard by the callers prior to the call being answered. SINA s CRBT service gives mobile phone users the option to customize their ring back tone based on popular songs and special sound effects.

SINA KJAVA. SINA KJAVA provides graphic and animated MVAS products on China Mobile s K-Java mobile platform. SINA KJAVA covers a full range of services including mobile games, animation and videos, portable tools and news updates.

SINA.net

SINA.net serves as an enterprise solutions platform to assist businesses and government bodies to more effectively engage, communicate and transact with their target audiences via the Internet. SINA.net provides businesses and government bodies with e-marketing and e-government solutions including search, corporate email, classified information, e-commerce and city portals.

SINA iAsk. SINA iAsk, SINA s proprietary search technology, offers knowledge-based search, community-based search and niche search covering a variety of topical areas. As an intelligent interactive search engine with natural language processing technology, SINA iAsk categorizes search subjects into areas of news, pictures, music, knowledge, and video. SINA iAsk offers an interactive Q&A platform and personalized features such as search by local content (maps, entertainment and travel). iAsk also powers SINA s mobile search engine. Since 2007, SINA has outsourced its web page search to Google under a revenue-sharing arrangement.

SINA E-Commerce

SINA currently offers SINAMall (http://mall.sina.com.cn), an online shopping website, on its Chinese Mainland and North America websites. Based on SINA s proprietary technology platform, SINAMall enables both international and local companies to transact business.

Additional information on segment reporting is incorporated herein by reference to Note 15 *Segment Information* of the Notes to the Consolidated Financial Statements, which appears in Item 8 of this Annual Report on Form 20-F.

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Strategic Relationships

SINA has developed strategic relationships with a range of content, service, application and distribution partners in order to serve users more effectively and to extend its brand and services to a broader audience.

Content Partnerships

The goal of SINA s content partnerships is to provide its users with an extensive offering of Chinese-language content. SINA contracts with content partners to display their content on one or more of its websites free of charge or in exchange for a share of revenue, a licensing fee, and access to SINA-generated content or a combination of these arrangements. Some of SINA s leading content providers include CCTV, BTV, Xinhua News Agency, China News, AFP, Associated Press, Reuters, Getty Images, China Daily, Nanfang Daily Group, Xinhua Net, Beijing News. For its mobile content, SINA has established content partnerships with certain international record label companies to provide image and music downloads.

Application and Service Partnership

The goal of SINA s application and service partnerships is to ensure that its users have access to user-friendly, reliable and scalable communication and search tools. Because many of SINA s prospective partners have traditionally focused on non-Chinese speaking markets, SINA s internal engineering and development teams often work closely with them to localize their solutions for the Chinese-language market.

Technology Infrastructure

SINA s operating infrastructure is designed to deliver hundreds of millions of page views per day to its users. SINA s infrastructure allows users to access its products and services, regardless of their geographical location. SINA s infrastructure is also designed to provide high-speed access by forwarding queries to its web hosting sites with greater resources or lower loads. The Company s web pages are generated, served and cached by servers hosted at various co-location web hosting sites in China, U.S., Taiwan and Hong Kong. SINA s servers run on Linux, FreeBSD, Solaris and Windows platforms using Apache and IIS servers. These servers are primarily maintained at China Telecommunications Corporation and China Network Communications Group Corporation in cities across China, including Beijing, Shanghai, Guangzhou, Tianjin, Jinan, Xian, Harbin, Nanjing, Chengdu, Wuhan and Shenyang, TNN in Taipei, Taiwan, X.O. Communication in Fremont, California, as well as iAdvantage in Hong Kong.

The Company believes that these hosting partners provide operating advantages, including an enhanced ability to protect their systems from power loss, break-ins and other potential external causes of service interruption. They provide continuous customer service, multiple connections to the Internet and a continuous power supply to their systems. In addition, SINA conducts online monitoring of its systems for accessibility, load, system resources, network-server intrusion and timeliness of content. SINA s mobile applications in China leverage the aforementioned web operation resources by utilizing the wireless infrastructure of China Mobile and China Unicom to provide MVAS to SINA s users. Nevertheless, the Company has experienced slower response time and suffered outages in the past due to equipment and software downtime as well as bandwidth issues with operators. Although these instances have not had a material adverse effect on the Company s business, such instances could have a material impact on its business in the future.

Seasonality

We experience seasonality in our online advertising business. Traditionally, in the China market, the fourth calendar quarter represents the best season for the general advertising market. This is followed by the third and second calendar quarters. The first calendar quarter is usually the worst season in China due to the Chinese New Year holidays. Seasonality in our MVAS and other businesses is less apparent.

Competition

SINA operates in the market of online content and services for the global Chinese community. The industry can be classified as highly competitive and rapidly changing due to the fast growing market.

As SINA expands its product offerings into areas, such as blog, video, social networking, instant messaging and WAP portal, it faces increasing competition from companies that are focused in the same space. In blog, SINA competes with public companies, such as Baidu, Tencent, Netease, Sohu and Microsoft (MSN) as well as private companies, such as Bokee, Blogbus and Hexun in China. In online video, SINA s competitors include private companies, such as Youku, 56.com, Tudou, Ku6, PP Live and PP Stream, as well as the video offerings of large established portal companies such as Tencent, Sohu and Netease. In social networking, SINA competes with private companies like Xiaonei.com, Kaixin001.com, hainei.com, 51.com as well as the large portals. In instant messaging, SINA faces competition from the likes of Tencent (QQ), Microsoft (MSN Messenger) and Alibaba/Yahoo! China (Yahoo Messenger). In the WAP portal space, key competitors include Tencent, Kongzhong, Shanghai 3G and WAP portals operated by mobile telecom operators such as China Mobile s Monternet. SINA also faces competition from vertical websites, who may have more resources dedicated to a particular topical area, such as Hexun, East Money, China Finance Online, PCAuto, Auto Home, Soufun and PC Online. On the mobile side, the Company competes with other service providers such as Kongzhong, Linktone, Hurray, Tencent and TOM Online that specialize in MVAS. As SINA continues to broaden its range of product offerings, it expects increasing competition from these established players and possibly less well-known players in the coming years. Many of these competitors have greater financial resources and better brand recognition in their respective verticals. In addition, certain companies, especially early-stage venture-backed start-ups may be willing to compete for market share at the expense of generating revenues.

Other online content/services companies, such as Baidu, Tencent, Netease, Sohu and TOM Online, compete with SINA for user traffic, advertising revenue, e-commerce transactions, MVAS and fee-based services. Industry consolidation may occur as the market for the Internet in China matures, which could result in increased competition. The Company also faces competition from international Internet companies such as Yahoo, Microsoft, eBay, Google and AOL. With the gradual opening of the telecommunication sector resulting from China s entry into the World Trade Organization, the Company expects an increasing number of international portals and Internet companies to enter the Chinese online media industry. These companies may have greater brand recognition, financial resources and longer operating histories than we have. SINA also competes for advertisers with traditional media companies, such as newspapers, television networks and radio stations that have a longer history of use and greater acceptance among advertisers. In addition, providers of Chinese language Internet tools and services may be acquired by, receive investments from, or enter into other commercial relationships with large, well-established and well-financed Internet, media or other companies.

SINA s ability to compete successfully depends on many factors, including the quality of its content, the breadth, depth and ease of use of its services, its sales and marketing efforts, and the performance of its technology. See also *The markets for MVAS and Internet services are highly competitive, and we may be unable to compete successfully against new entrants and established industry competitors, which could reduce our market share and adversely affect our financial performance* under the Risk Factors section.

Intellectual Property and Proprietary Rights

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our products is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

In addition, third parties may initiate litigation against us alleging infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations. See *We may not be able to adequately protect our intellectual property, which could cause us to be less competitive* and *We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards* under the Risk Factors section.

Government Regulation and Legal Uncertainties

The following description of PRC laws and regulations is based upon the opinions of lawyers from Jun He Law Offices, our PRC counsel. For a description of legal risks relating to our ownership structure and business, see Risk Factors.

Overview

The Chinese government has enacted an extensive regulatory scheme governing the operation of business with respect to the Internet, such as telecommunications, Internet information services, international connections to computer information networks, information security and censorship and administrative protection of copyright. Besides MII and SARFT, the various services of the PRC Internet industry are also regulated by various other governmental authorities, such as SAIC, the State Council Information Office (SCIO), the General Administration for Press and Publication (GAPP , formerly the State Press and Publications Administration (SPPA)), the Ministry of Education (MOE), the Ministry of Culture (MCPRC), the Ministry of Health (MOH), and the Ministry of Public Security.

Among all the regulations, the *Telecommunications Regulations of the People s Republic of China*, or the Telecom Regulations, promulgated on September 25, 2000, is the primary governing law. The Telecom Regulations set out the general framework under which domestic Chinese companies such as SINA s subsidiaries and VIEs may engage in various types of telecommunications services in the PRC. They reiterate the long-standing principle that telecommunications service providers need to obtain operating licenses as a mandatory precondition to begin operation. The Telecom Regulations differentiate the telecommunications services into basic telecommunications services and value-added telecommunications services. Value-added telecommunications services are defined as telecommunications and information services provided through public networks. The Catalogue of Telecommunications Business, an attachment to the Telecom Regulations and updated by *MII s Notice on Adjusting the Catalogue of Telecommunications Business* of April 1, 2003, categorizes various types of telecommunications and telecommunications-related activities into basic or value-added services.

On December 20, 2001, after China s formal entry into the WTO, the State Council promulgated the *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises*, or the FITE Regulations, which became effective on January 1, 2002 and were amended by the State Council on September 10, 2008. The FITE Regulations stipulate that foreign-invested telecommunications enterprises, or FITEs, may undertake operations in basic telecom services and value-added telecom services. Currently, the foreign party to a value-added FITE may hold up to 50% of the equity, with no geographic restrictions on its operations. Before that, foreign investors were prohibited from investing in Internet content services. The PRC government has not made any further commitment to loosen the regulation on FITEs.

According to the *Measures for the Administration of Internet Information Services* described below, an enterprise must obtain a license for operating value-added telecommunication services to conduct Internet content service businesses. When the Internet content involves areas of news, education, medicine, health, pharmaceuticals and medical equipment, which are regulated by MCPRC, MOE, MOH and other governmental authorities, respectively, the enterprise must also obtain permission from responsible national authorities.

PRC Corporate Structure

The Chinese government restricts foreign investment in Internet-related and MVAS businesses. Accordingly, we operate our Internet-related and MVAS businesses in China through our VIEs that are PRC domestic companies owned principally or completely by certain of our PRC employees or PRC employees of our directly-owned subsidiaries. For a list of our material directly-owned subsidiaries and VIEs in China, please see *C. Organizational Structure* below.

Classified Regulations

Foreign Investment in Value-added Telecom Services

The MII Circular 2006 was promulgated by MII on July 13, 2006. According to the MII Circular 2006, since the FITE Regulation went into effect, some foreign investors have, by means of delegation of domain names and license of trademarks, conspired with domestic value-added telecom enterprises to circumvent the requirements of FITE Regulations and have been engaged in value-added telecom services illegally.

In order to further intensify the administration of FITEs, the MII Circular 2006 provides that (i) any domain name used by a value-added telecom carrier shall be legally owned by such carrier or its shareholder(s); (ii) any trademark used by a value-added telecom carrier shall be legally owned by the carrier or its shareholder(s); (iii) the operation site and facilities of a value-added telecom carrier shall be installed within the scope as prescribed by operating licenses obtained by the carrier and shall correspond to the value-added telecom services that the carrier has been approved to provide; and (iv) a value-added telecom carrier shall establish or improve the measures of ensuring safety of network information. As to the companies which have obtained the operating licenses for value-added telecom services, they are required to conduct self-examination and self-correction according to the said requirements and report the result of such self-examination and self-correction to MII.

Accordingly, the ICP Company submitted the Self-Correction Scheme to MII on November 17, 2006. Under the Self-Correction Scheme, (i) the domain name www.sina.com.cn mainly used by the ICP Company shall be transferred from BSIT to the ICP Company, and (ii) the trademark SINA ((CHINESE CHARACTERS)) used by the ICP Company shall be transferred from BSIT to the ICP Company. According to the Certificate for Approval of Trademark Transfer issued by the Trademark Office of SAIC on September 28, 2008, the trademark SINA has already been transferred to the ICP Company. The domain name www.sina.com.cn has been transferred to the ICP Company as well.

Internet Information Services

The *Measures for the Administration of Internet Information Services*, or the ICP Measures, went into effect on September 25, 2000. Under the ICP Measures, any entity that provides information to online Internet users must obtain an operating license from MII or its local branch at the provincial level in accordance with the Telecom Regulations described above. The ICP Measures further stipulate that entities providing online information services in areas of news, publishing, education, medicine, health, pharmaceuticals and medical equipment must obtain permission from responsible national authorities prior to applying for an operating license from MII or its local branch at the provincial or municipal level. Moreover, ICPs must display their operating license numbers in a conspicuous location on their websites. ICPs must police their websites to remove categories of harmful content that are broadly defined. This obligation reiterates Internet content restrictions set by other ministries over the past few years.

The ICP Company currently holds a Telecommunication and Information Services Operating License, which was issued on December 5, 2005 by MII with a validity term up to December 4, 2010 subject to annual inspection. It also obtained a permit for operating its bulletin board systems on July 16, 2001 pursuant to additional ICP Measure regulations released on October 8, 2000, which requires all companies that operate bulletin board systems, or BBS, to obtain official permits.

Beijing Star-Village Online Cultural Development Co., Ltd. (StarVI) currently holds a Telecommunication and Information Services Operating License, which was issued on March 4, 2008 by MII with a validity term up to December 4, 2010 subject to annual inspection, authorizing the provision of business of information services excluding in areas of news, publishing, education, medicine, health, pharmaceuticals, medical equipment and BBS. Guangzhou Media Message Technologies, Inc. (Xunlong) currently holds a Value-Added Telecommunication Services Operating License issued on January 17, 2005 by MII with a validity term up to January 17, 2010 subject to annual inspection, authorizing the provision of nationwide business of information services (excluding fixed line phone call information services). Shenzhen Wang Xing Technology Co., Ltd. (Wangxing) currently holds a Value-Added Telecommunication Services Operating License issued on February 28, 2007 by MII with a validity term up to January 17, 2010, subject to annual inspection, authorizing the provision of nationwide information services (excluding fixed line phone call information services).

Beijing Yisheng Leju Information Service Co., Ltd. (Beijing Leju) currently holds a Telecommunication and Information Services Operating License, which was issued on February 1, 2008 by MII with a validity term up to January 31, 2013 subject to annual inspection, authorizing the provision of information services excluding in areas of news, publishing, education, medicine, health, pharmaceuticals, medical equipment and BBS.

Online News Publishing

On November 6, 2000 and September 25, 2005, the *Provisional Regulations for the Administration of Website Operation of News Publication Services* and the *Provisions for the Administration of Internet News Information Services, respectively,* were jointly promulgated by SCIO and MII. The regulations stipulate that general websites set up by non-news organizations may list news released by certain governmental news agencies, if they satisfy the requirements set forth in the foregoing two regulations, but may not publish news items produced by themselves or news sources from elsewhere.

Before commencing news-publishing services, the above regulations also require the general websites of non-news organizations to be approved by SCIO after securing permission from SCIO at the provincial level. In addition, the general websites intending to publish the news released by the aforementioned news agencies must enter into agreements with the respective organizations, and file copies of such agreements with the relevant administration department.

On December 27, 2000, the Information Office of Beijing People s Government approved the ICP Company to develop online news publishing services. On June 6, 2006, SCIO issued to the ICP Company the Internet News Information Service License, which is subject to annual inspection. The ICP Company has submitted the application to the SCIO for the annual inspection for the year 2008.

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Online Transmission of Audio-visual Programs

On July 6, 2004, SARFT promulgated the *Measures for the Administration of Publication of Audio-visual Programs through Internet or Other Information Network*, which apply to the opening, broadcasting, integration, transmission or download of audio-visual programs via Internet. An applicant who is engaged in the business of transmitting audio-visual programs shall apply for a license, which is to be issued by SARFT in accordance with the categories of business, receiving terminals, transmission networks, and other items. Validity term of the license is two years and can be renewed upon its expiration. Foreign invested enterprises are not allowed to engage in the above business. Moreover, the audio-visual programs of the news category published to the public through information network shall be limited to the programs produced and broadcasted by radio stations, television stations, radio television stations and approved news websites within the territory of China.

According to the *Reply on Approvals for Beijing SINA Internet Information Service Co., Ltd. Engaging in the Business of Information Services Relating to Online Transmission of Audio-visual Programs* issued by SARFT on October 17, 2004, the ICP Company has been approved to carry out the online transmission of audio-visual programs. The ICP Company currently holds a License for Online Transmission of Audio-visual Programs issued by SARFT valid through April 16, 2012.

On December 20, 2007, SARFT and MII jointly promulgated the *Administrative Provisions on Internet Audio-visual Program Service*, or the Audio-visual Program Provisions, which went effective on January 31, 2008. The Audio-visual Program Provisions stipulates, among others, that any entity engaged in Internet audio-visual program service must obtain a License for Online Transmission of Audio-visual Programs issued by SARFT or register with SARFT. An applicant for engaging in Internet audio-visual program service must be a state-owned entity or a state-controlled entity with full corporate capacity, and the business to be carried out by the applicant must satisfy the overall planning and guidance catalogue for Internet audio-visual program service determined by SARFT. It is unclear based on the implement rules of the Audio-visual Program Provisions whether such requirements only apply to the new market entrants for operating Internet audio-visual program services or such requirements apply to both new applicants and entities that have already obtained the License for Online Transmission of Audio-visual Programs.

SARFT and MII later jointly held a press conference in February 2008 to answer questions with respect to the Audio-visual Program Provisions. In that press conference, SARFT and MII clarified that the websites that existed before the promulgation of the Audio-visual Program Provisions may, once they are registered with SARFT, continue operating the audio-visual services so long as those websites have not been in violation of the laws and regulations.

Production of Radio and Television Programs

On July 19, 2004, SARFT promulgated the *Regulations for Administration on Production of Radio and Television Programs*, or the Radio and TV Programs Regulations, which went into effect as of August 20, 2004. Under the Radio and TV Programs Regulations, any entities engaged in the production of radio and television programs are required to apply for a license from SARFT or its provincial branches.

On March 19, 2009, the ICP Company obtained a license for production of radio and television programs issued by Beijing Radio and Television Bureau. The validity term of such license is up to March 19, 2011 subject to annual inspection.

MVAS

On December 26, 2001, MII published the *Administrative Measures for Telecommunication Business Operating Licenses*, or the Telecom License Measures to supplement the FITE Regulations. The Telecom License Measures confirm that MII is the competent approval authority for foreign-invested telecom enterprises. There are two types of telecom operating licenses in China (including FITEs): license for basic telecom services and license for value-added telecom services. Furthermore, a distinction is made as to whether a license for conducting value-added telecommunication services is granted for intra-provincial or trans-regional (inter-provincial) activities. An appendix to the license will detail the permitted activities to be conducted by the enterprise. An approved telecom service operator must conduct its business (basic or value-added) in accordance with the specifications recorded on its Telecom Service Operating License. However, there are still ambiguities regarding the interpretation and application of the FITE Regulations.

The ICP Company has obtained a Value-Added Telecommunication Services Operating License which was issued on June 15, 2005 by MII subject to annual inspection, authorizing nationwide provision of information service in value-added telecommunications

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services (excluding fixed line phone call information services). The validity term of this license is up to June 2, 2009. The ICP Company has submitted an application to MII for the renewal of this license. Acco; text-align: left"> 20

Because our offering will be conducted on a best efforts basis, there can be no assurance that we can raise the money we need.

The placement agent is offering the securities on a "best efforts" basis with no minimum, and the placement agent is under no obligation to purchase any securities for their own account. The placement agent is not required to sell any specific number or dollar amount of securities in this offering but will use its best efforts to sell the securities offered in this prospectus. As a "best efforts" offering, there can be no assurance that the offering contemplated hereby will ultimately be consummated. If the offering is not consummated or we receive less than the maximum proceeds, our business plans and prospects for the current fiscal year could be adversely affected.

There is no public market for the Preferred Stock or the warrants being offered in this offering.

The Preferred Stock and the warrants are new issues of securities with no established trading market. Following completion of this offering, we intend to apply to list the warrants on the NYSE MKT. No assurance can be given that such listing will be approved. The Preferred Stock will not be listed on any securities exchange and we do not expect the Preferred Stock to be quoted on any quotation system. There is no established trading market for the Preferred Stock or warrants. An active trading market for our warrants may not develop following the completion of this offering or, if developed, may not be sustained. A trading market for the Preferred Stock is not expected to develop, and even if a market develops for the Preferred Stock, it may not provide meaningful liquidity. The absence of a trading market or liquidity for the Preferred Stock or the warrants may adversely affect their value.

The certificate of designation for our Preferred Stock contains anti-dilution provisions that may result in the reduction of the conversion price for the Preferred Stock in the future. This feature may result in an indeterminate number of shares of common stock being issued upon conversion.

The certificate of designation for our Preferred Stock contains anti-dilution provisions, which provisions require the lowering of the conversion price to the purchase price of future offerings. If in the future we issue securities for less than the conversion price of our Preferred Stock, we will be required to further reduce the relevant conversion price, which will result in a greater number of shares of common stock being issuable upon conversion, which in turn will have a greater dilutive effect on our shareholders. 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 sufficient available shares to satisfy the conversion of the Preferred Stock if we enter into a future transaction that lowers the conversion price. If we do not have sufficient available shares for any Preferred Stock conversions, we will be required to increase our authorized shares, which may not be possible and will be time consuming and expensive. The potential for such issuances may depress the price of our common stock regardless of our business performance. We may find it more difficult to raise additional equity capital while our Preferred Stock is outstanding.

The 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 Preferred Stock will be entitled to receive cumulative dividends at the rate per share of 15% per annum of the state value per share, until the fifth anniversary of the date of issuance of the 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. The conversion price is subject to reduction if in the future we issue securities for less than the conversion price of our Preferred Stock. 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. As such, it is possible that we will not have sufficient 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 neither of which we currently have available. Additionally, we are also subject to certain restrictions pursuant to our loan and security agreement with Hercules Capital, Inc., which prohibits us from paying cash dividends or distributions on our capital stock. As such, we do not expect to have cash available to pay the dividends on our Preferred Stock or to be permitted to make such payments under our loan agreements, 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 such available shares, we may not be able to satisfy our dividend obligations.

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 of 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, cause downgrades in our future debt ratings leading to higher borrowing costs and affect how our stock trades. This could in turn negatively affect our ability to access public debt or 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.

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

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock and make it more difficult for us to raise funds through future offerings of common stock. Our stockholders and the holders of our options and warrants may sell substantial amounts of our common stock in the public market. The availability of these shares of our common stock for resale in the public market has the potential to cause the supply of our common stock to exceed investor demand, thereby decreasing 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 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.

If securities and/or industry analysts fail to continue publishing research about our business, if they change their recommendations adversely or if our results of operations do not meet their expectations, our stock price and trading volume could decline.

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. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. In addition, it is likely that in some future period our operating results will be below the expectations of securities analysts or investors. If one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

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

The tax treatment of the Preferred Stock and the 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 the Preferred Stock and the warrants.

Risks Related to our Indebtedness

Our obligations under our $10 million principal term loan are secured by all of our assets, so if we default on those obligations, the lender could foreclose on our assets. As a result of these security interests, such assets would only be available to satisfy claims of our general creditors or to holders of our equity securities if we were to become insolvent at a time when the value of such assets exceeded the amount of our indebtedness and other obligations. In addition, the existence of these security interests may adversely affect our financial flexibility.

The lender under our $10 million principal term loan has a security interest in all of our assets and those of InspireMD Ltd., our wholly-owned subsidiary. As a result, if we default under our obligations to the lender, the lender could foreclose on its security interests and liquidate some or all of these assets, which would harm our business, financial condition and results of operations.

In the event of a default in connection with our bankruptcy, insolvency, liquidation, or reorganization, the lender would have a prior right to substantially all of our assets to the exclusion of our general creditors. In that event, our assets would first be used to repay in full all indebtedness and other obligations secured by the lender, resulting in all or a portion of our assets being unavailable to satisfy the claims of any unsecured indebtedness. Only after satisfying the claims of any unsecured creditors would any amount be available for our equity holders.

The pledge of these assets and other restrictions may limit our flexibility in raising capital for other purposes. Because substantially all of our assets are pledged under the $10 million principal term loan, our ability to incur additional secured indebtedness or to sell or dispose of assets to raise capital may be impaired, which could have an adverse effect on our financial flexibility.

Our loan and security agreement contains customary events of default. In addition, an event of default will include the occurrence of a circumstance that would reasonably be expected to have a material adverse effect upon (i) our business, operations, properties, assets, prospects or condition (financial or otherwise), (ii) our ability to perform our obligations under the agreement and any related loan documents or (iii) the collateral, the lender's liens on the collateral or the priority of such liens.

We have a substantial amount of indebtedness, which may adversely affect our cash flow and our ability to operate our business.

Pursuant to the terms of our loan and security agreement, the lender made a term loan to us and InspireMD Ltd. in aggregate amount of $10 million. We are required to make monthly payments of interest and principal in the amount of approximately $380,000 per month. The current principal amount of the loan as of April 1, 2016 was approximately $3.6 million. On June 13, 2016, the parties to the loan and security agreement entered into an amendment to the loan and security agreement to provide a deferral of payment of principal for a four month period beginning May 1, 2016. However, the deferral is subject to the satisfaction of certain interest only period extension conditions, including us raising net cash proceeds of at least $10 million from the sale of our equity securities with investors acceptable to the lender on or prior to June 30, 2016. The term loan under the loan and security agreement, as amended, matures on (i) April 1, 2017, if we do not complete such sale of our equity securities and the lender does not waive such condition to complete such sale prior to June 30, 2016, or (ii) June 1, 2017, if we complete such sale of our equity securities, or if the lender waives such condition to complete such sale of our equity securities, prior to June 30, 2016.

The terms of our term loan could have negative consequences to us, such as:

- we may be unable to obtain additional financing to fund working capital, operating losses, capital expenditures or acquisitions on terms acceptable to us, or at all;

- the amount of our interest expense may increase because our term loan has a variable rate of interest at any time that the prime rate, as reported in the Wall Street Journal, is above 5.5%;

- we will need to use a substantial portion of our cash flows to pay principal and interest on our term loan, which will reduce the amount of money we have for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other business activities;

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- we may have a higher level of debt than some of our competitors, which may put us at a competitive disadvantage;
- we may be unable to refinance our indebtedness on terms acceptable to us, or at all; and
- we may be more vulnerable to economic downturns and adverse developments in our industry or the economy in general.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will be unable to control many of these factors, such as economic conditions. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt and meet any other obligations. If we do not have enough money to service our debt, we may be required, but unable to refinance all or part of our existing debt, sell assets, borrow money or raise equity on terms acceptable to us, if at all, and the lender could foreclose on its security interests and liquidate some or all of our assets.

Our loan and security agreement contains covenants that could limit our financing options and liquidity position, which would limit our ability to grow our business.

Covenants in our loan and security agreement impose operating and financial restrictions on us. These restrictions prohibit or limit our ability, and the ability of InspireMD Ltd., to, among other things:

- pay cash dividends to our stockholders;
- redeem or repurchase our common stock or other equity;
- incur additional indebtedness;
- permit liens on assets;
- make certain investments (including through the acquisition of stock, shares, partnership or limited liability company interests, any loan, advance or capital contribution);
- sell, lease, license, lend or otherwise convey an interest in a material portion of our assets; and

- cease making public filings under the Securities Exchange Act of 1934, as amended.

These restrictions may limit our ability to obtain additional financing, withstand downturns in our business or take advantage of business opportunities. Moreover, additional debt financing we may seek, if permitted, may contain terms that include more restrictive covenants, may require repayment on an accelerated schedule or may impose other obligations that limit our ability to grow our business, acquire needed assets, or take other actions we might otherwise consider appropriate or desirable.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference herein and therein contain “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,” “plans,” “believes,” “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 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 the our technology is an attractive alternative to other procedures and 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;

- loss of a key customer or supplier;
- technical problems with our research and products and potential product liability claims;
- adverse economic conditions;
- adverse federal, state and local government regulation, in the United States, Europe or Israel;
- price increases for supplies and components;
- inability to carry out research, development and commercialization plans; and
- loss or retirement of key executives and research scientists.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. You should review carefully the section entitled "Risk Factors" beginning on page 7 of this prospectus for a discussion of these and other risks that relate to our business and investing in our securities. The forward-looking statements contained or incorporated by reference in this prospectus 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.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the securities offered under this prospectus, after deducting estimated placement agent fees and other estimated offering expenses payable by us, will be approximately $12,118,000 if we sell the maximum amount of Preferred Stock and warrants offered hereby. However, this is a best efforts offering with no minimum, and we may not sell all or any of the securities; as a result, we may receive significantly less in net proceeds, and the net proceeds received may not be sufficient to continue to operate our business. If a warrant holder elects to exercise the warrants issued in this offering, we may also receive proceeds from the exercise of the warrants. If all of these warrants were to be exercised at an exercise price of $ per share, then we would receive net proceeds of approximately $. We expect to use these proceeds, if any, for operations and general working capital requirements at the time of such exercise. We cannot predict when or if the warrants will be exercised. It is possible that the warrants may expire and may never be exercised.

We intend to use the net proceeds from this offering (i) to pay an aggregate amendment fee of $117,333 to holders of our currently outstanding warrants with an exercise price of $72.00 per share, as consideration for entering into an amendment to the securities purchase agreement, dated April 5, 2012, as amended, to remove certain provisions prohibiting issuance of securities containing anti-dilution protective provisions, and (ii) to conduct sales activities related to CGuard EPS and MGuard Prime EPS and develop our pipeline of new products. Any balance of the net proceeds will be used for general corporate purposes.

Investors are cautioned, however, that expenditures may vary substantially from these uses. Investors will be relying on the judgment of our management, who will have broad discretion regarding the application of the proceeds of this offering. The amounts and timing of our actual expenditures will depend upon numerous factors, including the amount of cash generated by our operations, the amount of competition we face and other operational factors. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes.

From time to time, we evaluate these and other factors and we anticipate continuing to make such evaluations to determine if the existing allocation of resources, including the proceeds of this offering, is being optimized. Circumstances that may give rise to a change in the use of proceeds include:

- a change in development plan or strategy;
- the addition of new products or applications;
- technical delays;

- delays or difficulties with our clinical trials;
- negative results from our clinical trials;
- difficulty obtaining regulatory approval;
- failure to achieve sales as anticipated; and
- the availability of other sources of cash including cash flow from operations and new bank debt financing arrangements, if any.

Until we use the net proceeds of this offering, we will hold such funds in cash or invest the funds in short-term, investment grade, interest-bearing securities.

A $10 increase or decrease in the anticipated public offering price of $39 per share of Preferred Stock and the accompanying warrant would increase or decrease the net proceeds to us from this offering by approximately $3,510,000, assuming we sell the maximum amount of Preferred Stock and warrants offered hereby and after deducting estimated placement agent fees and other estimated offering expenses payable by us. Similarly, any increase or decrease in the number of shares of Preferred Stock and accompanying warrants that we sell in the offering will increase or decrease our net proceeds in proportion to such increase or decrease, as applicable, multiplied by the offering price per share of Preferred Stock and the accompanying warrant, less estimated placement agent fees and other estimated offering expenses payable by us. The information discussed above is illustrative only and will adjust based on the actual public offering price, the number of securities sold and other terms of this offering determined at pricing.

PRICE RANGE OF OUR COMMON STOCK

Our common stock has been quoted on the NYSE MKT since April 11, 2013 under the symbol “NSPR.” Prior to that date, it was traded on the OTC Bulletin Board.

The following table sets forth the intra-day high and low sales price per share for our common stock, as reported on the NYSE MKT, for the periods indicated. The sales prices for our common stock prior to October 1, 2015, are adjusted for the one-for-ten reverse stock split of our common stock that occurred on such date:

	Common Stock	
	High	Low
Fiscal Year Ending December 31, 2016		
Second quarter (through June 23, 2016)	$ 0.62	$ 0.32
First quarter	$ 0.95	$ 0.39
Fiscal Year Ended December 31, 2015		
Fourth quarter	$ 2.12	$ 0.63
Third quarter	$ 3.20	$ 1.50
Second quarter	$ 4.20	$ 1.90
First quarter	$ 10.10	$ 2.30
Fiscal Year Ended December 31, 2014		
Fourth quarter	$ 22.30	$ 7.00
Third quarter	$ 30.20	$ 18.10
Second quarter	$ 32.50	$ 17.90
First quarter	$ 38.00	$ 24.80

The closing price of our common stock on the NYSE MKT on June 23, 2016 was $0.39 per share. Immediately prior to this offering, we had 10,701,320 issued and outstanding shares of common stock, which were held by approximately 214 holders of record.

DIVIDEND POLICY

In the past, we have not declared or paid cash dividends on our capital stock. Our loan and security agreement with Hercules Capital, Inc. (formerly Hercules Technology Growth Capital, Inc.), dated October 23, 2013, as amended, prohibits us from paying cash dividends or distributions on our capital stock. Even if we are permitted to pay cash dividends in the future, we do not intend to do so. Rather, we intend to retain future earnings, if any, to fund the operation and expansion of our business and for general corporate purposes.

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CAPITALIZATION

The following table summarizes our cash and cash equivalents, certain other items from our historical consolidated balance sheet, and capitalization as of March 31, 2016:

- on an actual basis; and
- on an unaudited as adjusted basis, giving effect to (1) the filing of the amendment to our amended and restated certificate of incorporation to increase the number of authorized shares of common stock from 50,000,000 to 150,000,000, which was filed on May 25, 2016, and (2) our receipt of the net proceeds from the sale by us in this offering of Preferred Stock and warrants at an anticipated public offering price of $39 per share of Preferred Stock, assuming the conversion of all of the Preferred Stock into shares of common stock and payment of all dividends accrued on the Preferred Stock in shares of common stock upon conversion of the Preferred Stock and after deducting estimated placement agent fees and other estimated offering expenses payable by us.

For the purposes of the Capitalization discussion, we determined the assumed number of shares by dividing (x) $13,500,000 that we anticipate raising in this offering by (y) an assumed offering price of $39 per share of Preferred Stock, which is 100 times $0.39, the last reported sales price of our common stock on June 23, 2016. The actual number of shares sold in this offering will be determined by dividing (x) $13,500,000 by (y) the public offering price as mutually determined by the placement agent and us. The as adjusted information below is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual public offering price, the number of securities sold and other terms of this offering determined at pricing. You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and the related notes appearing elsewhere in this prospectus.

	March 31, 2016 (in thousands) (unaudited)	
	Actual	As Adjusted
Cash and cash equivalents	1,999	14,116
Equity:		
Common stock, par value $0.0001 per share – 50,000,000 shares authorized and 10,722,974 shares issued and outstanding actual; 150,000,000 shares authorized and 71,299,924 shares issued and outstanding as adjusted[(1)]	1	7
Preferred stock, par value $0.0001 per share; 5,000,000 shares authorized:		
Series A Preferred Stock, par value $0.0001 per share; none issued and outstanding at March 31, 2015 and as adjusted	—	—
Series B Convertible Preferred Stock, par value $0.0001 per share; none issued and outstanding at March 31, 2015; 346,154 shares issued as adjusted	—	—
Additional paid-in capital	122,209	134,320

Accumulated deficit	(125,605)	(125,605)
Total equity	(3,395)	8,722

(1) 71,299,924 shares issued and outstanding as adjusted includes 34,615,400 shares of common stock underlying Preferred Stock being sold in this offering and 25,961,550 shares of common stock as payment of all dividends accrued on the Preferred Stock upon conversion of the Preferred Stock at an assumed conversion price of $0.39 and an assumed stated value per share of $39 and does not include 34,615,400 shares of common stock issuable upon the full exercise of the warrants being sold in this offering, 2,423,000 shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants to purchase common stock included in the placement agent’s unit purchase option, and 908,625 shares of common stock issuable as cumulative dividend upon conversion of the Preferred Stock included in the placement agent’s unit purchase option.

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DILUTION

The discussion assumes the price of $0.39 per share of common stock, which is the last reported sales price of our common stock on June 23, 2016, and an offering price of $39 per share of Preferred Stock and the accompanying warrant to purchase common stock, which is 100 times the last reported sales price of our common stock on June 23, 2016.

If you invest in our Preferred Stock, your interest will be diluted to the extent of the difference between the price per share of Preferred Stock you pay in this offering and the as adjusted net tangible book value per share of our common stock immediately after this offering (assuming the conversion of all of the Preferred Stock into shares of common stock). For the purpose of such calculation, the entire purchase price for the shares of Preferred Stock and accompanying warrants is being allocated to the shares of Preferred Stock, and the shares issuable upon exercise of the accompanying warrants have not been included.

Our net tangible book value of our common stock as of March 31, 2016 was approximately $(3,470), or approximately $(0.32) per share of common stock based on 10,722,974 shares outstanding (including 10,671,187 vested restricted shares and 51,787 unvested restricted shares) at that time. “Net tangible book value” is total assets minus the sum of liabilities and intangible assets. “Net tangible book value per share” is net tangible book value divided by the total number of shares outstanding.

After giving effect to the sale of 346,154 shares of Preferred Stock and accompanying warrants to purchase 34,615,400 shares of our common stock in the aggregate amount of $13,500,000 in this offering and deducting estimated placement agent fees and other estimated offering expenses payable by us, our net tangible book value as of March 31, 2016 would have been approximately $8,647,000, or approximately $0.12 per share of common stock based on 71,299,924 shares of common stock outstanding on a pro forma basis at that time (assuming conversion of 346,154 shares of Preferred Stock into 34,615,400 shares of common stock, payment of all dividends accrued on the Preferred Stock in an aggregate of 25,961,550 shares of common stock upon conversion of the Preferred Stock at an assumed conversion price of $0.39 and an assumed stated value per share of $39 and no exercise of any of the warrants offered hereby). This represents an immediate increase in net tangible book value of $0.44 per share to our existing stockholders and an immediate dilution of approximately $0.27 per share to new investors participating in this offering (assuming conversion of all of the Preferred Stock into shares of common stock), as illustrated by the following table:

Public offering price per share of common stock	$ 0.39
Net tangible book value per share of common stock as of March 31, 2016	$ (0.32)

Increase in net tangible book value per share of common stock attributable to the offering	$ 0.44
Pro forma net tangible book value per share of common stock as of March 31, 2016 after giving effect to the offering	$ 0.12
Dilution in net tangible book value per share of common stock to new investors in the offering	$ 0.27

The discussion of dilution, and the table quantifying it, attribute no value to the warrants being issued in this offering and assume no exercise of any of the warrants offered hereby or thereby or any outstanding options or warrants or other potentially dilutive securities. The exercise of potentially dilutive securities having an exercise price less than the offering price would increase the dilutive effect to new investors.

In particular, the table above excludes the following potentially dilutive securities as of March 31, 2016:

- 91,399 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of $72.00 per share;

- 65,912 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of $30.00 per share;

- 16,836 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of $29.70 per share;

- 313,100 shares of common stock issuable upon the exercise of currently outstanding warrants to purchase one-half of one share of common stock with an exercise price for two warrants of $17.50 per full share;

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- 3,436,973 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of $5.50 per share;

- 1,466,526 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of $0.59 per share;

- 146,653 shares of common stock issuable upon the exercise of currently outstanding warrants with an exercise price of $0.7375 per share;

- shares of common stock issuable upon the exercise of currently outstanding warrant issued to Hercules Capital, Inc. on June 13, 2016, equal to $182,399.30, divided by (i) the lowest effective price per share, determined on a common stock-equivalent basis, for which our equity securities are sold and issued by us in an equity financing in which we receive unrestricted aggregate gross cash proceeds of at least $7.5 million, subject to adjustment from time to time in accordance with the terms of the warrant agreement, or (ii) if such equity financing shall not have been consummated on or before July 30, 2016, or if, prior to the consummation of such equity financing, there shall be a transaction involving a change of control or a dissolution, liquidation or winding-up, then the closing price of a share of our common stock on June 13, 2016, subject to adjustment thereafter from time to time;

- 2,423,000 shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants to purchase common stock included in the unit purchase option that we have agreed to issue to the placement agent or its designees in this offering, assuming the sale of all shares covered by this prospectus, at a price per share equal to 125% of the public offering price in this offering;

- 908,625 shares of common stock issuable as cumulative dividends upon conversion of the Preferred Stock included in the unit purchase option that we have agreed to issue to the placement agent or its designees in this offering, assuming the sale of all shares covered by this prospectus;

- 1,056,852 shares of common stock issuable upon the exercise of currently outstanding options with exercise prices ranging from $0.0001 to $84.00 and having a weighted average exercise price of $8.64 per share;

- 10,122 shares of common stock available for future issuance under our 2011 UMBRELLA Option Plan; and

- 10,212,129 shares of common stock available for future issuance under our 2013 Long-Term Incentive Plan.

To the extent that any of these options are exercised, new options are issued under our equity incentive plans and subsequently exercised or we issue additional shares of common stock in the future, there will be further dilution to new investors participating in this offering.

We may sell less than 346,154 shares of Preferred Stock. An increase of 10,000 shares in the number of shares of Preferred Stock sold by us would increase our as adjusted net tangible book value after this offering by approximately $0.4 million, or $0.002 per share, and the dilution per share to new investors would be approximately $0.27 per share, assuming conversion of all of the Preferred Stock into shares of common stock and that the public offering price remains the same and after deducting estimated placement agent fees and other estimated offering expenses payable by us.

Similarly, a decrease of 10,000 shares of Preferred Stock in the number of shares sold by us would decrease our as adjusted net tangible book value after this offering by approximately $0.4 million, or $0.002 per share, and the dilution per share to new investors would be approximately $0.27 per share, assuming conversion of all of the Preferred Stock into shares of common stock and that that the public offering price remains the same and after deducting estimated placement agent fees and other estimated offering expenses payable by us.

Assuming the issuance of all Preferred Stock and accompanying warrants offered by us in this offering and assuming the conversion of all of the Preferred Stock into shares of common stock, each $10 increase (decrease) in the anticipated public offering price of $39 per share of Preferred Stock and the accompanying warrant would increase (decrease) our pro forma as adjusted net tangible book value by approximately $3.2 million, the pro forma as adjusted net tangible book value per share by approximately $0.04 per share and the dilution to investors in this offering by approximately $0.06 per share, assuming the number of shares of Preferred Stock and warrants offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated placement agent fees and other estimated offering expenses payable by us. The information discussed above is illustrative only and will adjust based on the actual public offering price, the number of securities sold and other terms of this offering determined at pricing.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

You should read the following discussion and analysis of financial condition and results of operations in conjunction with our financial statements and the related notes thereto included elsewhere in this prospectus. In addition to historical information, the following discussion and analysis includes forward-looking information that involves risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this prospectus. See "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this prospectus.

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 coronary and vascular 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 MGuard Prime EPS, which incorporate our MicroNet platform technology, is marketed for use in patients with acute coronary syndromes, notably acute myocardial infarction (heart attack) and saphenous vein graft coronary interventions (bypass surgery).

Our second product, CGuard EPS combines our MicroNet mesh 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 through a distribution agreement with Penumbra, Inc. In September 2015, we also received regulatory approval to commercialize CGuard EPS in Argentina and Colombia. Following the receipt of such regulatory approval, we launched CGuard EPS in Argentina in the first quarter of 2016 and Colombia in the fourth quarter of 2015.

We are also developing 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 commenced initial pre-clinical testing of this product in both simulated bench models and standard in vivo pre-clinical models.

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 open diseased vessels in the brain.

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

Recent Events

During the first quarter of 2015, we implemented a cost reduction/focused spending plan. The plan has four components: (i) reducing headcount; (ii) limiting the focus of clinical and development expenses to only carotid and neurovascular products; (iii) limiting sales and marketing expenses to those related to the CGuard EPS stent launch; and (iv) reducing all other expenses (including conferences, travel, promotional expenses, executive cash salaries, director cash fees, rent, etc.). In addition, we decided to alter our commercial strategy by using third party distributors to drive future sales, as opposed to direct sales to hospitals and clinics, which had previously been our focus.

On March 21, 2016, we sold 1,900,000 shares of our common stock and warrants to purchase 950,000 shares of our common stock in a public offering. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to us of approximately $1.1 million, before deducting the underwriting discount and estimated offering expenses.

On March 21, 2016, we sold 1,033,051 shares of our common stock and warrants to purchase 516,526 shares of our common stock in a private placement. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the private placement. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This private placement resulted in gross proceeds to us of approximately $0.6 million, before deducting placement agent fees and estimated offering expenses.

These sales of securities on March 21, 2016 resulted in aggregate net proceeds to us of approximately $1.4 million, after deducting underwriting discount, placement agent fees and other offering expenses.

Critical Accounting Policies

We prepared our consolidated financial statements for inclusion in this report in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). U.S. GAAP represents a comprehensive set of accounting and disclosure rules and requirements, and applying these rules and requirements requires management judgments and estimates including, in certain circumstances, choices between acceptable U.S. GAAP alternatives. The following is a discussion of our most critical accounting policies, judgments and uncertainties that are inherent in our application of U.S. GAAP.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates using assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to inventory valuations, royalty buyout and legal contingencies.

Functional currency

The currency of the primary economic environment in which our operations and the operations of our subsidiaries are conducted is the U.S. dollar ("$" or "dollar"). Accordingly, our and our subsidiaries' functional currency is the U.S. dollar.

The dollar figures are determined as follows: transactions and balances originally denominated in dollars are presented in their original amounts. Balances in foreign currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. The resulting translation gains or losses are recorded as financial income or expense, as appropriate. For transactions reflected in the statements of operations in foreign currencies, the exchange rates at transaction dates are used. Depreciation and changes in inventories and other changes deriving from non-monetary items are based on historical exchange rates.

Concentration of credit risk and allowance for doubtful accounts

Financial instruments that may potentially subject us to a concentration of credit risk consist of cash and cash equivalents, which are deposited in major financially sound institutions in the United States, Israel and Germany, and trade accounts receivable. Our trade accounts receivable are derived from revenues earned from customers from various countries. We perform ongoing credit evaluations of our customers' financial condition and, generally, require no collateral from customers. We also have a credit insurance policy for some customers. We maintain an allowance for doubtful accounts receivable based upon the expected ability to collect the accounts receivable. We review our allowance for doubtful accounts quarterly by assessing individual accounts receivable and all other balances based on historical collection experience and an economic risk assessment. If we determine that a specific customer is unable to meet its financial obligations to us, we provide an allowance for credit losses to reduce the receivable to the amount management reasonably believes will be collected, which is netted against "Accounts receivable — Trade".

Inventory

Inventories are stated at the lower of cost (cost is determined on a "first-in, first-out" basis) or market value. Our inventories generally have a limited shelf life and are subject to impairment as they approach their expiration dates. We regularly evaluate the carrying value of our inventories and when, based on such evaluation, factors indicate that impairment has occurred, we impair the inventories' carrying value.

Revenue recognition

Revenue is recognized when delivery has occurred, evidence of an arrangement exists, title and risks and rewards for the products are transferred to the customer, collection is reasonably assured and product returns can be reliably estimated.

We recognize revenue net of value added tax (VAT).

Research and development costs

Research and development costs are charged to the statement of operations as incurred.

Share-based compensation

Employee option awards are classified as equity awards and accounted for using the grant-date fair value method. The fair value of share-based awards is estimated using the Black-Scholes valuation model and expensed over the requisite service period, net of estimated forfeitures. We estimate forfeitures based on historical experience and anticipated future conditions.

We elected to recognize compensation expenses for awards with only service conditions that have graded vesting schedules using the accelerated multiple option approach.

In addition, certain share-based awards are performance based and dependent upon achieving certain goals. With respect to these awards, we estimate the expected pre-vesting award probability that the performance conditions will be achieved. We only recognize expense for those shares that are expected to vest.

Uncertain tax and value added tax positions

We follow a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit. If under the first step a tax provision is assessed to be more likely than not of being sustained on audit, the second step is performed, under which the tax benefit is measured as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Such liabilities are classified as long-term, unless the liability is expected to be resolved within twelve months from the balance sheet date. Our policy is to include interest related to unrecognized tax benefits within "Financial expenses (income) — net."

Fair value measurement

We measure fair value and disclose fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and consider counterparty credit risk in our assessment of fair value.

Allocation of issuance proceeds

When debt or equity is issued with other components that are subsequently measured at fair value, the proceeds are allocated first to such components (such as warrants and embedded derivatives in the debt that require bifurcation at their fair values), then the residual amount of the proceeds is allocated to the debt or equity. When other components are classified in equity, the proceeds are allocated based on relative fair values.

Results of Operations

Three months ended March 31, 2016 compared to the three months ended March 31, 2015

Revenues. For the three months ended March 31, 2016, revenue increased by $0.1 million, or 18.2%, to $0.6 million, from $0.5 million during the same period in 2015. This increase was predominantly driven by a 437.4% increase in sales of CGuard EPS from $60,000 in the three months ended March 31, 2015 to $0.3 million in the same period in 2016. This increase in CGuard EPS sales were partially offset by a 41.7% decrease in sales of MGuard Prime EPS from $0.4 million in the three months ended March 31, 2015 to $0.3 million in the same period in 2016, predominantly driven by a decrease in sales due to the trend of doctors increasingly using drug-eluting stents rather than bare metal stents in ST-segment elevation myocardial infarction, the most severe form of a heart attack, referred to as STEMI, patients.

With respect to regions, the increase in revenue was primarily attributable to an increase of $0.1 million in revenue from our distributors in Europe.

Gross Profit (Loss). For the three months ended March 31, 2016, we had a gross profit (revenue less cost of revenues) of $66,000, as compared to a gross loss (revenue less cost of revenues) of $37,000, during the same period in 2015, representing an increase of $0.1 million. This increase in gross profit was attributable to an increase in revenues of $0.1 million (see above for explanation) and a decrease of write-offs of inventory of $0.2 million, which were primarily related to a decrease of write-offs of MGuard Prime EPS units during the three months ended March 31, 2016, as compared to the same period in 2015, partially offset by an increase of $0.1 million in material and labor costs due to the increased sales and an increase of $0.1 million related to the underutilization of our manufacturing resources. Gross margin (gross profits as a percentage of revenue) increased to 11.7% in the three months ended March 31, 2016 from (7.8)% in the same period in 2015.

Research and Development Expenses. For the three months ended March 31, 2016, research and development expenses decreased by 64.6%, or $0.9 million, to $0.5 million, from $1.4 million during the same period in 2015. This decrease in research and development expenses resulted primarily from a decrease of $0.3 million in clinical trial and development costs associated with CGuard EPS, a decrease of $0.3 million in compensation expenses, a decrease of $0.1 million in clinical trial expenses associated with our MASTER II trial, a decrease of $0.1 million of expenses related to the development of a drug eluting coronary stent and a decrease of $0.1 million in miscellaneous clinical and development expenditures related to MGuard Prime EPS. Such decreases are the results of the implementation of our cost reduction/focused spending plan beginning in the first quarter of 2015.

Selling and Marketing Expenses. For the three months ended March 31, 2016, selling and marketing expenses decreased by 62.0%, or $0.6 million, to $0.4 million, from $1.0 million during the same period in 2015. This decrease in selling and marketing expenses resulted primarily from a decrease of $0.4 million in compensation expenses due to our transition away from direct sales in favor of using third party distributors, a decrease of $0.1 million in travel expenses associated with the decreased size of our sales force and a decrease of $0.1 million in miscellaneous expenses. The decrease in spending was a result of our cost reduction/focused spending plan.

General and Administrative Expenses. For the three months ended March 31, 2016, general and administrative expenses decreased by 19.3%, or $0.4 million, to $1.6 million, from $2.0 million during the same period in 2015. The decrease in general and administrative expenses resulted primarily from a decrease of $0.2 million in miscellaneous expenses such as investor relations, audit, rent, consultants and travel, as part of our cost reduction/focused spending plan, a decrease of $0.1 million of share based compensation expenses pertaining to the change in our forfeiture rate assumptions of restricted stock of our chief executive officer and a decrease of $0.1 million in litigation expenses following a one-time charge in Argentina of $0.1 million in the three months ended March 31, 2015.

Restructuring and Impairment Expenses. For the three months ended March 31, 2015 we incurred $0.5 million of restructuring and impairment expenses made up of $0.3 million of expenses related to the impairment of an MGuard royalties buyout option due to anticipated lower sales in the future, $0.1 million of cash payouts and $0.1 million of restricted shares given to terminated employees in connection with our restructuring. No such expense occurred during the same period in 2016.

Financial Expenses. For the three months ended March 31, 2016, financial expenses decreased by 27.8% or $0.1 million, to $0.2 million, from $0.3 million during the same period in 2015. The decrease in financial expenses resulted from a decrease of $0.1 million of interest expenses due to the reduction in principal of our outstanding indebtedness.

Tax Expenses (Income). For the three months ended March 31, 2016 there was no material change in tax expenses (income) compared to the same period in 2015.

Net Loss. Our net loss decreased by $2.6 million, or 49.9%, to $2.6 million for the three months ended March 31, 2016 from $5.2 million during the same period in 2015. The decrease in net loss resulted primarily from a decrease of $2.4 million in operating expenses primarily associated with lower research and development, sales and marketing and restructuring expenses, due to our cost reduction/focused spending plan, a decrease of $0.1 million in financial expenses and an increase of $0.1 million in gross profit.

Twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014

Revenues. For the twelve months ended December 31, 2015, revenue decreased by $0.5 million, or 18.1%, to $2.3 million, from $2.8 million during the same period in 2014. This decrease was predominantly driven by a decrease in sales of our MGuard coronary products of $1.2 million, or 42.6%, from $2.8 million in the twelve months ended December 31, 2014 to $1.6 million in the same period in 2015. This decrease in sales of MGuard Prime EPS was predominantly driven by a decrease in sales volume of $0.8 million, or 28.9% due to the trend of doctors increasingly using drug-eluting stents rather than bare metal stents in STEMI patients, which impacted current sales. Price decreases to our distributors drove the remaining decrease of $0.4 million, or 13.7%, of MGuard Prime EPS, due to lower average sales prices necessary to remain competitive amongst sharp price decreases in the coronary stent market, as well as the effects of the weakening of the Euro against the U.S dollar. These decreases, however, were partially offset by an increase of $0.7 million of sales of our new product CGuard EPS, which was launched in October 2014.

With respect to regions, the decrease in revenue was primarily attributable to a decrease of $0.7 million in revenue from our distributors in the Middle East and a decrease of $0.1 million in revenue from our distributors in Asia, partially offset by an increase of $0.3 million in revenue from our distributors in Europe.

Gross Profit (Loss). For the twelve months ended December 31, 2015, we had a gross loss (revenue less cost of revenues) of $0.3 million, as compared to a gross profit of $0.8 million during the same period in 2014, representing a decrease of 137.8%, or $1.1 million. This decrease in gross profit was attributable to a decrease in revenues of $0.5 million (see above for explanation), an increase of write-offs of inventory of $0.4 million, which were primarily related to write-offs of MGuard Prime EPS units due to expected lower sales in the future resulting from industry preferences for drug eluting stents, and our transition to a third party distributor commercial strategy, an increase in labor and material costs of $0.3 million attributable to higher material and labor costs for CGuard EPS, as well as an increase of $0.3 million related to underutilization of our manufacturing resources. These increases, however, were partially offset by a decrease of $0.4 million in costs associated with the voluntary field action. Gross margin (gross profits as a percentage of revenue) decreased from 27.8% in the twelve months ended December 31, 2014 to (12.8)%

in the same period in 2015. The decrease in gross margin of 40.6% was driven mainly by write-offs of inventory, the change in product mix, including a higher percentage of CGuard EPS, which has higher material and labor costs than our MGuard coronary products, and a lower average sales price of MGuard Prime EPS.

Research and Development Expenses. For the twelve months ended December 31, 2015, research and development expenses decreased by 58.3%, or $5.1 million, to $3.6 million, from $8.7 million during the same period in 2014. This decrease in research and development expenses resulted primarily from a decrease of $3.4 million in clinical trial expenses associated with our MASTER II trial, a decrease of $0.5 million in clinical trial and development costs associated with CGuard EPS, which were predominantly related to our CARENET (**CAR**otid **E**mbolic protection using micro**NET**) trial, a decrease of $0.3 million in compensation expenses, a decrease of $0.3 million of expenses related to our stent retention program, which we concluded in 2014, a decrease of $0.2 million in travel expenses and a decrease of $0.4 million in miscellaneous clinical and development expenditures related to MGuard Prime EPS. The decreases in compensation, travel and miscellaneous clinical and development expenditures related to MGuard Prime EPS are the results of the implementation of our cost reduction/focused spending plan in the first quarter of 2015. Research and development expenses as a percentage of revenue decreased to 157.7% for the twelve months ended December 31, 2015, from 310.3% in the same period in 2014.

Selling and Marketing Expenses. For the twelve months ended December 31, 2015, selling and marketing expenses decreased by 51.9%, or $3.4 million, to $3.2 million, from $6.6 million during the same period in 2014. This decrease in selling and marketing expenses resulted primarily from a decrease of $2.2 million in compensation expenses due to our transition away from direct sales in favor of using third party distributors, a decrease of $0.5 million in travel expenses associated with the decreased size of our sales force, a decrease of $0.5 million in trade show participation related expenditures and a decrease of $0.2 million in miscellaneous expenses. The decrease in spending of the above was a result of our cost reduction/focused spending plan. Selling and marketing expenses as a percentage of revenue decreased to 137.6% in the twelve months ended December 31, 2015, from 234.7% in the same period in 2014.

General and Administrative Expenses. For the twelve months ended December 31, 2015, general and administrative expenses decreased by 30.0%, or $2.7 million, to $6.4 million, from $9.1 million during the same period in 2014. The decrease in general and administrative expenses resulted primarily from a decrease of $2.1 million in compensation due to a decrease in share-based compensation driven by lower valued ESOP grants made to our management and directors, as well as a decrease in salary expenses due to a reduced headcount as part of our cost reduction/focused spending plan. In line with our cost reduction/focused spending plan, we also had a decrease of $0.2 million in legal expenses, a decrease of $0.1 million in travel expenditures and a decrease of $0.4 million in miscellaneous expenses. General and administrative expenses as a percentage of revenue decreased to 276.5% in the twelve months ended December 31, 2015 from 323.8% in the same period in 2014.

Restructuring and Impairment Expenses. For the twelve months ended December 31, 2015, we incurred $1.0 million of restructuring and impairment expenses made up of $0.6 million of expenses related to the impairment of an MGuard Prime EPS royalty buyout option due to anticipated lower sales in the future due to the shift in industry preferences away from bare metal stents in favor of drug eluting stents, $0.2 million of cash payouts and $0.1 million of restricted shares given to employees terminated in connection with our cost reduction/focused spending plan and $0.1 million in fees associated with our early exit from a portion of our lease in our Boston office. Restructuring and impairment expenses as a percentage of revenue was 42.5% for the twelve months ended December 31, 2015.

Financial Expenses. For the twelve months ended December 31, 2015, financial expenses decreased by 20.9%, or $0.3 million, to $1.1 million, from $1.4 million during the same period in 2014. The decrease in financial expenses resulted from a decrease of $0.4 of interest expenses due to the reduction in principal of our outstanding indebtedness, partially offset by an increase in miscellaneous expenses of $0.1 million. Financial expenses as a percentage of revenue decreased to 47.4% in the twelve months ended December 31, 2015, from 49.1% in the same period in 2014.

Tax Expenses (Income). For the twelve months ended December 31, 2015 there was no material change in tax expenses (income) compared to the same period in 2014.

Net Loss. Our net loss decreased by $9.5 million, or 37.9%, to $15.6 million for the twelve months ended December 31, 2015 from $25.1 million during the same period in 2014. The decrease in net loss resulted primarily from a decrease of $10.2 million in operating expenses primarily associated with lower research and development expenses, due to our cost reduction/focused spending plan, and a decrease of $0.3 million in financial expenses, partially offset by a decrease of $1.0 million in gross profit (see above for explanation).

Liquidity and Capital Resources

We had an accumulated deficit as of March 31, 2016, as well as net losses and negative operating cash flows in recent years. 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 do not have sufficient resources to fund operations beyond June 2016. 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 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 October 23, 2013, we entered into a loan and security agreement with Hercules Capital, Inc., which was subsequently amended on November 19, 2013, July 23, 2014, and June 13, 2016, pursuant to which we received a loan of $10 million, before deduction of issuance costs. Interest on the loan is determined on a daily basis at a variable rate equal to the greater of either (i) 10.5%, or (ii) the sum of (A) 10.5% plus (B) the prime rate minus 5.5%. On June 13, 2016, we amended the loan and security agreement to provide that, among other things, the principal payment otherwise due and payable will be suspended for a four month period beginning May 1, 2016, provided, that we receive unrestricted and unencumbered net cash proceeds in an amount of at least $10 million from the sale of our equity securities with investors acceptable to the lender on or prior to June 30, 2016. The term loan under the loan and security agreement, as amended, matures on (i) April 1, 2017, if we do not complete such sale of our equity securities and the lender does not waive such condition to complete such sale prior to June 30, 2016, or (ii) June 1, 2017, if we complete such sale of our equity securities, or if the lender waives such condition to complete such sale of our equity securities, prior to June 30, 2016. Our obligations under the loan and security agreement are secured by a grant of a security interest in all of our assets. In addition, in connection with the loan and security agreement, on October 23, 2013, we issued the lender a five year warrant to purchase 168,351 shares of our common stock at a per share exercise price of $2.97. On June 13, 2016, in connection with the amendment to the loan and security agreement, we issued the lender a five year warrant to purchase up to the number of shares of common stock equal to $182,399.30, divided by (i) the lowest effective price per share, determined on a common stock-equivalent basis, for which our equity securities are sold and issued by the Company in an equity financing in which we receive unrestricted aggregate gross cash proceeds of at least $7.5 million, subject to adjustment from time to time in accordance with the terms of the warrant agreement, or (ii) if such equity financing shall not have been consummated on or before July 30, 2016, or if, prior to the consummation of such equity financing, there shall be a transaction involving a change of control or a dissolution, liquidation or winding-up, then the closing price of a share of our common stock on June 13, 2016, subject to adjustment thereafter from time to time in accordance with the terms of the warrant agreement.

On October 23, 2013, we entered into an at-the-market issuance sales agreement with MLV & Co. LLC ("MLV"), pursuant to which we may issue and sell shares of our common stock in an aggregate amount up to $40 million from time to time in an "at-the-market" offering as defined in Rule 415 under the Securities Act of 1933, as amended, through MLV as our sales agent. On August 15, 2014, we sold 94,800 shares of our common stock, at $24.00 per share, pursuant to the at-the-market issuance sales agreement with MLV. These sales resulted in net proceeds to us of approximately $2.2 million. We paid MLV compensation at a commission rate of 3% of the gross sales. Prior to these sales, we have not made any sales under this "at-the-market" equity offering program, and, as of December 31, 2015, shares of our common stock having an aggregate value of approximately $37.7 million remained available for sale under this offering program. Such sales were made pursuant to our effective $75 million shelf registration statement filed with the Securities and Exchange Commission in October 2013 (File No. 333-191875). Our securities purchase agreement with purchasers of shares of our common stock and warrants to purchase our common stock, dated March 4, 2015, entered into in connection with the public offering described below, prohibits us from issuing and selling additional shares of our common stock under this "at-the-market" equity offering program until March 9, 2017.

On November 7, 2014, we sold 626,189 shares of our common stock and warrants to purchase 313,100 shares of our common stock in a registered direct offering. The shares of common stock were sold at a negotiated purchase price of $13.00 per share, and each purchaser received a warrant to purchase one-half of a share of common stock for each share of common stock that it purchased in the offering. The warrants are non-exercisable for six months after the date of issuance and have a term of exercise of 42 months after the date of issuance and an exercise price of $17.50. This offering resulted in net proceeds to us of approximately $7.4 million after deducting placement agent fees and other estimated offering expenses. Such sales were made pursuant to the $75 million shelf registration statement.

On March 9, 2015, we sold 3,436,968 shares of our common stock and warrants to purchase 3,436,968 shares of our common stock in a public offering. Each purchaser received a warrant to purchase one share of common stock for each share of common stock that it purchased in the offering. The warrants have a term of exercise of 5 years from the date of issuance and an exercise price of $5.50. This offering resulted in net proceeds to us of approximately $12.4 million after deducting placement agent fees and other estimated offering expenses. Such sales were made pursuant to the $75 million shelf registration statement.

On March 21, 2016, we sold 1,900,000 shares of our common stock and warrants to purchase 950,000 shares of our common stock in a public offering. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to us of approximately $1.1 million.

On March 21, 2016, we sold 1,033,051 shares of our common stock and warrants to purchase 516,526 shares of our common stock in a private placement. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to us of approximately $0.6 million.

These offerings on March 21, 2016, resulted in net proceeds to us of approximately $1.4 million after deducting placement agent fees and other estimated offering expenses. The sale of 1,900,000 shares of our common stock and warrants to purchase 950,000 shares of our common stock was made pursuant to the $75 million shelf registration statement.

As of June 24, 2016, shares of our common stock having an aggregate value of approximately $49.7 million remained available for sale under the shelf registration statement, including approximately $37.7 million remaining available for sale under "at-the-market" equity offering program; however, because our current aggregate value of public float is below $75 million, we may not sell more than the equivalent of one-third of our public float during any 12 consecutive months, and as of June 24, 2016, we have no "shelf capacity" under the $75 million shelf registration statement and cannot make further sales pursuant to such shelf registration statement.

Three months ended March 31, 2016 compared to the three months ended March 31, 2015

General. At March 31, 2016, we had cash and cash equivalents of $2.0 million, as compared to $3.3 million as of December 31, 2015. 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.

Cash used in our operating activities was $1.9 million for the three months ended March 31, 2016 and $4.6 million for the same period in 2015. The principal reason for the usage of cash in our operating activities for the three months ended March 31, 2016 was a net loss of $2.6 million, offset primarily by $0.7 million in non-cash share based compensation that was largely paid to our directors and chief executive officer. The principal reason for the usage of cash in our operating activities for the three months ended March 31, 2015 was a net loss of $5.2 million, as well as an increase in working capital of $0.9 million, offset by $1.0 million in non-cash share-based compensation that was largely paid to our directors and chief executive officer, $0.3 million of non-cash expenses related to the impairment of our royalties buyout option (discussed above), $0.1 million of non-cash financial expense and $0.1 million of depreciation and amortization expenses.

Cash provided by our investing activities was $90,000 during the three months ended March 31, 2016, resulting from the receipt of cash previously funded to employee retirement funds, compared to $11,000 of cash used by our investing activities during the same period in 2015.

Cash provided by financing activities for the three months ended March 31, 2016 was $0.5 million, compared to $11.6 million during the same period in 2015. The principal source of the cash provided by financing activities during the three months ended March 31, 2016 was the issuance of shares and warrants in a concurrent public offering and private placement for approximately $1.5 million of proceeds, offset by loan repayments of $1.0 million The principal source of the cash provided by financing activities during the three months ended March 31, 2015 relates to funds received from the issuance of shares and warrants of approximately $12.5 million in a public offering, offset by the repayment of a loan of $0.9 million and $0.1 million of payments made by us in satisfaction of tax withholding obligations associated with the vesting of restricted stock held by some of our employees.

As of March 31, 2016, our current liabilities exceeded our current assets by a multiple of 2.1. Current assets decreased by $1.3 million during the period and current liabilities increased by $0.2 million during the period. As a result, our working capital deficit increased by $1.5 million to $3.7 million at March 31, 2016.

Twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014

General. At December 31, 2015, we had cash and cash equivalents of $3.3 million, as compared to $6.3 million as of December 31, 2014. 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.

Cash used in our operating activities was $11.6 million for the twelve months ended December 31, 2015 and $19.4 million for the same period in 2014. The principal reasons for the usage of cash in our operating activities for the twelve months ended December 31, 2015 were a net loss of $15.6 million, as well as an increase in working capital of $0.2 million, offset by $3.1 million in non-cash share based compensation that was largely paid to our directors, chief executive officer and chief operating officer $0.6 million of non-cash expenses related to the impairment of our royalty buyout option (discussed above), $0.3 million of non-cash financial expenses and $0.2 million of depreciation and amortization expenses. The principal reasons for the usage of cash in our operating activities for the twelve months ended December 31, 2014, were a net loss of $25.1 million, offset by $4.1 million in non-cash share-based compensation that was largely paid to our directors and chief executive officer, a decrease in working capital of $0.9 million, $0.4 million of non-cash financial expense and $0.3 million of depreciation and amortization expenses.

Cash used in our investing activities was $23,000 during the twelve months ended December 31, 2015, compared to $86,000 during the same period in 2014. The decrease in cash used in our investing activities resulted primarily from a decrease in purchases of property, plant and equipment.

Cash provided by financing activities for the twelve months ended December 31, 2015, was $8.6 million, compared to $8.3 million during the same period in 2014. The principal source of the cash provided by financing activities during the twelve months ended December 31, 2015 was the issuance of shares and warrants in a public offering for approximately $12.4 million after deducting placement agent fees and other estimated offering expenses, offset by loan repayments of $3.7 million and $0.1 million of payments made by us in satisfaction of tax withholding obligations associated with the vesting of restricted stock held by some of our employees. The principal source of the cash provided by financing activities during the twelve months ended December 31, 2014, relates to funds received from the issuance of shares in a registered direct offering of $7.4 million and funds received from the issuance of at-the-market shares of $2.2 million, offset by the repayment of a loan of $1.2 million.

As of December 31, 2015, our current liabilities exceeded our current assets by a multiple of 1.5. Current assets decreased by $4.7 million during the period and current liabilities decreased by $1.6 million during the period. As a result, our working capital surplus decreased by $3.1 million to a working capital deficit of $2.3 million at December 31, 2015.

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

In April, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The new guidance does not affect the recognition and measurement of debt issuance costs. The new guidance became effective during the first quarter of 2016 and was applied on a retrospective basis. As of March 31, 2016 and December 31, 2015, $68,000 and $85,000, respectively were deducted from the carrying value of the "Current maturity of loan" in the condensed consolidated balance sheets.

In May 2014, the FASB issued Accounting Standards Codification 606, Revenue from contracts with customers. The objective of the new revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services, based on a five step model that includes the identification of the contract with the customer and the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies a performance obligation. The revenue standard is effective for annual periods beginning on or after December 15, 2016. We are currently evaluating the impact, if any, the adoption of this guidance will have on its consolidated financial statements.

On July 9, 2015, the FASB approved a one-year deferral of the effective date of Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers,” such that it is effective beginning on or after December 15, 2017 for public entities. Reporting entities may choose to adopt the standard as of the original effective date.

On July 22, 2015, the FASB issued Accounting Standards Update No. 2015-11, “Simplifying the Measurement of Inventory,” which requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out and the retail inventory method are not impacted by the new guidance. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years. Prospective application is required. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the impact of the standard on its consolidated financial statements.

In March 2016, FASB issued Accounting Standards Update which simplifies certain aspects of the accounting for share-based payments, including accounting for income taxes, classification of awards as either equity or liabilities, classification on the statement of cash flows as well as allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. This Accounting Standards Update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted in any annual or interim period for which financial statements have not yet been issued, and all amendments in the Accounting Standards Update that apply must be adopted in the same period. We are currently evaluating the new guidance to determine the impact it may have on our consolidated financial statements. In addition, the impact on our consolidated financial statements upon adoption is dependent on our share price at option expiration dates and restricted stock vesting dates.

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 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.

BUSINESS

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 EPS combines our MicroNet mesh 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 through a distribution agreement with Penumbra, Inc. In September 2015, we also received regulatory approval to commercialize CGuard EPS in Argentina and Colombia. Following the receipt of such regulatory approval, we launched CGuard EPS in Argentina in the first quarter of 2016 and Colombia in the fourth quarter of 2015.

Our 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 the MicroNet with a bare-metal cobalt-chromium based stent and, together with our first generation MGuard stent combining the MicroNet with a bare-metal stainless steel stent, unless otherwise indicated, we refer to both kinds of bare-metal stents as MGuard coronary products. We market and sell MGuard Prime EPS for the treatment of coronary disease in the European Union. 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 and incorporating our MicroNet in-house onto a drug-eluting stent manufactured by a potential partner. We are also developing 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 commenced initial pre-clinical testing of this product in both simulated bench models and standard in vivo pre-clinical models.

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 open diseased vessels in the brain.

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

During the first quarter of 2015, we implemented a cost reduction/focused spending plan. The plan has four components: (i) reducing headcount; (ii) limiting the focus of clinical and development expenses to only carotid and neurovascular products; (iii) limiting sales and marketing expenses to those related to CGuard EPS stent launch; and (iv) reducing all other expenses (including conferences, travel, promotional expenses, executive cash salaries, director cash fees, rent, etc.). In addition, we decided to alter our commercial strategy by using third party distributors to drive future sales, as opposed to direct sales to hospitals and clinics, which had previously been our focus.

Recent Developments

On March 21, 2016, we sold 1,900,000 shares of our common stock and warrants to purchase 950,000 shares of our common stock in a public offering. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to us of approximately $1.1 million, before deducting the underwriting discount and estimated offering expenses.

On March 21, 2016, we sold 1,033,051 shares of our common stock and warrants to purchase 516,526 shares of our common stock in a private placement. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the private placement. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This private placement resulted in gross proceeds to us of approximately $0.6 million, before deducting placement agent fees and estimated offering expenses.

These sales of securities on March 21, 2016 resulted in aggregate net proceeds to us of approximately $1.4 million, after deducting underwriting discount, placement agent fees and other offering expenses.

Growth Strategy

Our primary business objective is to utilize our proprietary technology to become the industry standard for treatment of complex vascular and coronary disease and to provide a superior solution to the common acute problems caused by current stenting procedures, such as restenosis, embolic showers and late thrombosis. We are pursuing the following business strategies in order to achieve this objective.

- **Grow our presence in existing and new markets for CGuard EPS.** We have fully launched CGuard EPS in most European and Latin American countries, through a combination of distributor sales organizations as well as a partnership with Penumbra, Inc., a global interventional therapies company focused on the neuro and peripheral vascular specialties, to distribute CGuard EPS in 18 European countries. We are also pursuing additional registrations and contracts in other countries in Europe, Asia and Latin America.

- **Continue to leverage MicroNet technology to develop additional applications for interventional cardiologists and vascular surgeons.** In addition to the applications described above, we believe that we will eventually be able to utilize our proprietary technology to address imminent market needs for new product innovations to significantly improve patients' care. We continue to broadly develop and protect intellectual property using our mesh technology. Examples of some areas include peripheral vascular disease, neurovascular disease, renal artery disease, and bifurcation disease.

- **Establish relationships with collaborative and development partners to fully develop and market our existing and future products.** We are seeking strategic partners for collaborative research, development, marketing, distribution, or other agreements, which could assist with our development and commercialization efforts for CGuard EPS and our NGuard flow diverter, as well as future efforts with MGuard Prime EPS, MGuard DES, and other potential products that are based on our MicroNet technology.

- **Continue to protect and expand our portfolio of patents.** Our MicroNet technology and the use of patents to protect it are critical to our success. We own numerous patents for our MicroNet technology. Twelve separate patent applications have been filed in the United States some of which have corresponding patent applications and/or issued patents in Canada, China, Europe, Israel, India, and South Africa. We believe these patents and patent applications collectively cover all of our existing products, and may be useful for protecting our future technology developments. We intend to aggressively continue patenting new technology, and to actively pursue any infringement covered by any of our patents. We believe that our patents, and patent applications once allowed, are important for maintaining the competitive differentiation of our products and maximizing our return on research and development investments.

- **Resume development and successfully commercialize the next generation of drug-eluting stent incorporating MicroNet.** While we have limited the focus of product development to carotid and neurovascular products, if we resume development of our coronary products, we plan to evaluate opportunities to further develop a drug-eluting stent that incorporates MicroNet.

Business Segment and Geographic Areas

Prior to October 2014, all revenue was derived from sales of MGuard Prime EPS, our bare-metal coronary stent. For the twelve months ended December 31, 2015, 70% of our revenue was derived from sales of this product. For financial information about our one operating and reportable segment and geographic areas, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 13 to our financial statements for the year ended December 31, 2015.

Our Industry

Carotid

Carotid arteries are located on each side of the neck and provide the primary blood supply to the brain. Carotid artery disease, also called carotid artery stenosis, is a type of atherosclerosis (hardening of the arteries) that is one of the major risk factors for ischemic stroke. In carotid artery disease, plaque accumulates in the artery walls, narrowing the artery and disrupting the blood supply to the brain. This disruption in blood supply, together with plaque debris breaking off the artery walls and traveling to the brain, are the primary causes of stroke. According to the World Heart Federation (*http://www.world-heart-federation.org/cardiovascular-health/stroke/*, last visited on Mar. 11, 2016), every year, 15 million people worldwide suffer a stroke, and nearly six million die and another five million are left permanently disabled. According to the same source, stroke is the second leading cause of disability, after dementia.

The potential global market value of carotid stents is approximately $500 million, approximately $300 million of which consists of the U.S. market and approximately $200 million of which consists of the rest of the world (*source: JMP Securities 2014 and Cowen 2014)*. Carotid artery stenting is a minimally invasive treatment option for carotid artery disease and an alternative to carotid endarterectomy, where a surgeon accesses the blocked carotid artery though an incision in the neck, and then surgically removes the plaque. Endovascular techniques using stents and carotid embolic prevention system protect against plaque and debris traveling downstream, blocking off the vessel and disrupting blood flow. We believe that the use of a stent with an embolic protection system should increase the number of patients being treated since it would avoid the need for complex surgery.

Coronary

Physicians and patients may select from among a variety of treatments to address coronary artery disease, including pharmaceutical therapy, balloon angioplasty, stenting with bare metal or drug-eluting stents, and coronary artery bypass graft procedures, with the selection often depending upon the stage of the disease.

The global market value of coronary products is estimated at $5.9 billion, of which $4.2 billion is for stable angina and $1.7 billion is for acute myocardial infarctions according to Health Research International (June 2011). According to the 2014 MEDTECH OUTLOOK produced in December 2013 by BMO Capital Markets ("MEDTECH OUTLOOK"), revenues from the global coronary stent market are predicted to slightly decline, although in volume of stents the market is predicted to continue to grow. We believe the growth in volume is due to the appeal for less invasive percutaneous coronary intervention ("PCI") procedures and advances in technology coupled with the increase in the elderly population, obesity rates and advances in technology.

Neurovascular

The neurovascular market focuses on catheter-delivered products used to treat strokes that already happened or unruptured brain aneurysms that could lead to strokes. In the latter case, coils are wound into blood vessel bulges to block blood flow entering the aneurysms to prevent the aneurysms from rupturing. Endovascular treatment of arterial aneurysm has evolved substantially over the past two decades, transitioning from an investigational therapy into routine clinical practice and ultimately emerging as the treatment of choice for many lesions *(source: Medtech Ventures 2009, Aneurysm Flow Modulating Device Market).* We believe that the market for aneurysm flow modulating devices is still in the embryonic stage with windows of opportunities for early entrance.

The current global market for the aneurysm flow modulating devices is estimated at $550 million, and the current market value of the flow diversion market segment is estimated to be $125 million. The neurovascular market includes over-the-wire, flow-guided microcatheters, guiding catheters, coil and liquid embolics, neurovascular stents and flow diversion stents. According to iData Research, the market is expected to be driven by the conversion from surgical procedures to endovascular techniques in the treatment of aneurysms and arteriovenous malformations.

Peripheral

Peripheral vascular diseases ("PVD") are caused by the formation of atherosclerotic plaques in arteries, which carry blood to organs, limbs and head. It is also known as peripheral artery occlusive disease or peripheral artery disease. It comprises diseases pertaining to both peripheral veins and peripheral arteries, affecting the peripheral and cardiac circulation in the body. PVD includes diseases outside of the heart and brain, but most times refers to the leg and foot.

The global market value of PVDs is estimated at $1.7 billion (*source: Global Data 2011*). The overall peripheral vascular devices market consists of nine different product segments: peripheral vascular stents, chronic total occlusion devices, peripheral transluminal angioplasty balloon catheters, atherectomy devices, percutaneous transluminal angioplasty guidewires, aortic stents, embolic protection devices, synthetic surgical grafts and inferior vena cava filters *(source: Grand View Research 2014)*.Treatment modalities and methods have considerably improved during the last several years, and this trend is expected to continue (*source: Global Data 2011*). Stents and balloons hold the majority of the share in the peripheral vascular devices market. Peripheral stents are more often used in combination with balloon angioplasty to open the veins, so that blood can flow through the blocked veins in the body.

The growing prevalence of PVD is expected to cause increased demand for treatment options. The expansion of the elderly population is contributing to increasing incidence rates of PVD. The percentage of the global population above the age of 50 is expected to reach 17% by 2030. As the risk of developing PVD increases with age, a growing elderly population translates into a growing incidence of PVD (*source: Global Data 2011*). The growing global geriatric population base also triggers increasing demand for minimally invasive endovascular procedures on account of their shorter recovery time, lesser scaring and lesser chances of post surgery infections. In addition, a growing prevalence of disease causing lifestyle factors and eating habits such as high consumption of alcohols and tobacco products is expected to boost peripheral vascular devices market demand by triggering the incidence rates of cardiac arrest, blood clotting and other vascular diseases *(source: Grand View Research 2014).*

Our Products

Below is a summary of our current products and products under development, and their intended applications.

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MicroNet

MicroNet is our proprietary circular knitted mesh which wraps around a stent to protect patients from plaque debris flowing downstream upon deployment. MicroNet is made of a single fiber from a biocompatible polymer widely used in medical implantations. The size, or aperture, of the current MicroNet 'pore' is only 150-180 microns in order to maximize protection against the potentially dangerous plaque and thrombus.

CGuard — Carotid Applications

Our CGuard EPS combines our MicroNet mesh and a self-expandable nitinol stent (a stent that expands without balloon dilation pressure or need of an inflation balloon) in a single device for use in carotid artery applications. MicroNet is placed over and attached to an open cell nitinol metal stent platform which is designed to trap debris and emboli that can dislodge from the diseased carotid artery and potentially travel to the brain and cause a stroke. This danger is one of the greatest limitations of carotid artery stenting with conventional carotid stents and stenting methods. The CGuard EPS technology is a highly flexible stent system that conforms to the carotid anatomy.

Our CGuard EPS with over-the-wire delivery system received CE mark approval in the European Union in March 2013. In October 2014, we initiated a limited market release of CGuard EPS with over-the-wire delivery system for use in carotid artery applications in Germany, Poland and Italy.

In September 2014, we reported the results of the CGuard CARENET trial at the Transcatheter Cardiovascular Therapeutics ("TCT") conference in Washington D.C. In the CARENET trial, the CGuard EPS system demonstrated better results over historical data using conventional commercially available carotid stents. In the third quarter of 2015 the results of the CGuard CARENET trial were published in the Journal of the American College of Cardiology. In November 2015, positive twelve month follow-up data from the CGuard CARENET trial was presented at the 42nd Annual Symposium on Vascular and Endovascular Issues, documenting the benefits of the CGuard MicroNet technology as well as the patency benefits (maintaining the artery open) of the internal and external carotid arteries at twelve months.

We believe that our CGuard EPS design provides advantages over existing therapies in treating carotid artery stenosis, such as conventional carotid stenting and surgical endarterectomy, given the superior embolic protection characteristics provided by the MicroNet. We believe the MicroNet will provide acute embolic protection at the time of the procedure, but more importantly, we believe that CGuard EPS will provide post-procedure protection against embolic dislodgement, which can occur up to 48 hours post-procedure. It is in this post-procedure time frame that embolization is the source of post-procedural strokes in the brain. Schofer, et al. ("Late cerebral embolization after emboli-protected carotid artery stenting assessed by sequential diffusion-weighted magnetic resonance imaging," *Journal of American College of Cardiology Cardiovascular Interventions*, Volume 1, 2008) have shown that the majority of the incidents of embolic showers associated with carotid stenting occur post-procedure.

In the first quarter of 2015, we introduced CGuard RX, the new rapid exchange delivery system for CGuard EPS. The rapid exchange delivery system has a guidewire that passes through the delivery system, running through the guiding catheter. It has one port, and thus, can be operated by one operator, while an over-the-wire-delivery system has two lumens and ports and requires two operators to perform the procedure. Our rapid exchange delivery system received CE mark approval in January 2015. We launched our CGuard EPS in Europe with the rapid exchange delivery system in multiple medical specialties that perform carotid artery stenting. These customers include interventional cardiologists, vascular surgeons, interventional neuroradiologists and interventional radiologists.

In September 2015, we announced full market launch of CGuard EPS by our distribution partner, Penumbra, Inc., in 18 CE marked countries in Europe. In October 2015, we received regulatory approval to commercialize CGuard EPS in Argentina and Colombia. Following the receipt of such regulatory approval, we launched CGuard EPS in Argentina in the first quarter of 2016 and Colombia in the fourth quarter of 2015. We are currently preparing materials required to conduct a clinical trial in the United States and have a draft clinical protocol synopsis that we believe could support a clinical trial for submission for approval by the U.S. Food and Drug Administration. Once complete, we plan to request a pre-submission guidance meeting with the U.S. Food and Drug Administration.

MGuard Products — Coronary Applications

Bare-Metal Stent MGuard Product. Our MGuard Prime EPS coronary product is comprised of MicroNet wrapped around a cobalt-chromium based bare-metal stent. In comparison to a conventional bare-metal stent, we believe our MGuard Prime EPS coronary product with MicroNet mesh provides protection from dangerous embolic showers in patients experiencing ST-segment elevation myocardial infarction, the most severe form of a heart attack, referred to as STEMI. Standard stents were not engineered for heart attack patients. Rather, they were designed for treating stable angina patients whose occlusion is different from that of an occlusion in a heart attack patient. In acute heart attack patients, the plaque or thrombus is unstable and often breaks up as the stent is implanted causing downstream blockages in a significant portion of heart attack patients. Our MGuard Prime EPS is integrated with a precisely engineered micro net mesh that is designed to prevent the unstable arterial plaque and thrombus that caused the heart attack blockage from breaking off.

During the fourth quarter of 2014, due to a shift in industry preferences away from bare-metal stents in favor of drug-eluting (drug-coated) stents, we decided to curtail developing and promoting our bare-metal stent platform and instead focus on the development of a drug-eluting stent product. Although we have curtailed development and promotion of MGuard Prime EPS, our distributors and sales staff generally cover all of our current products in the market including MGuard Prime EPS.

Drug-Eluting Stent MicroNet Product Candidate. During 2015, we completed the second phase of development work for our MGuard DES, pursuant to which we incorporated our MicroNet with a drug-eluting stent manufactured by a prospective partner. We believe that a drug-eluting stent with MicroNet has the potential to improve certain performance metrics over the MGuard Prime EPS and attract a broader portion of the cardiologists in the worldwide stent market who are more accustomed to using drug-eluting stents. However, due to our limited resources we have tabled further development of MGuard DES at this time.

NGuard — Neurovascular Applications

We are developing a neurovascular flow diverter, which is an endovascular device that directs blood flow away from cerebral aneurysms to ultimately seal the aneurysms. Flow diversion is a growing market segment within the neurovascular medical device field. Current commercial flow diverters are highly flexible dense metal mesh tubes that go across most types of cerebral aneurysms and divert the blood flow away from the aneurysm with the desired end result of sealing the aneurysm. The challenges with the current flow diverters are that they (i) are difficult to place given the high metal content in the device, which makes it more difficult to move the device through the delivery system due to resistance from the metal, and to subsequently accurately place it, (ii) need to be accurately placed to avoid crossing and blocking other cerebral vessels, which could cause additional damage by cutting off blood flow to sections of the brain, (iii) require chronic use of anti-thrombotic medications due to the amount of metal in the cerebral vasculature, which could cause thrombotic complications, and (iv) do not allow a physician to reaccess the aneurysm if the aneurysm does not seal, in which event the aneurysm may need to be treated with another therapy such as aneurysm coils, due to the tight metal mesh that will not allow other devices to pass through the flow diverter.

Our flow diverter prototype will include our MicroNet that has been employed in CGuard EPS and MGuard Prime EPS. MicroNet has already demonstrated the ability to effectively seal aneurysms in both human coronary arteries using the MGuard Prime EPS and aneurysms in the carotid arteries using CGuard EPS in human clinical situations without the need for additional devices or procedures (coils or a second stent) (*source: Journal of Medical Case Reports http://www.jmedicalcasereports.com/content/4/1/238*). For our flow diverter, we plan to utilize an open cell, highly flexible metal scaffold to which MicroNet would be attached. We believe our flow diverter could be more accurately delivered due to a lower metal content scaffold than current commercial flow diverters; lower metal content in our flow diverter may reduce the need for long-term anticoagulation; the open cell metal scaffold combined with the MicroNet may allow passage of other devices through the MicroNet mesh without compromising the MicroNet, thus allowing a physician to reaccess the aneurysm, if needed; and our flow diverter should be capable of being delivered through a state-of-the-art microcatheter for accurate placement without constant repositioning. We have tested early flow diverter prototypes in both simulated aneurysm bench models using various MicroNet configurations with varying aperture sizes, as well as in standard in vivo pre-clinical models, in which we observed aneurysm sealing and also wide open side branch vessels across which the device was placed.

We expect to complete the development work on our flow diverter and submit for CE mark approval in 2017.

PVGuard — Peripheral Vascular Applications

We intend to develop our MicroNet mesh sleeve and a self-expandable stent for use in peripheral vascular applications, to which we refer to as PVGuard. PVDs are usually characterized by the accumulation of plaque in arteries in the legs. This accumulation can lead to the need for amputation or even death, when untreated. PVD is treated either by trying to clear the artery of the blockage, or by implanting a stent in the affected area to push the blockage out of the way of normal blood flow.

As in carotid procedures, peripheral procedures are characterized by the necessity of controlling embolic showers both during and post-procedure. Controlling embolic showers is so important in these indications that physicians often use fully covered stents, at the risk of blocking branching vessels, to ensure that emboli do not fall into the bloodstream and move to the brain. We believe that our MicroNet design will provide substantial advantages over existing therapies in treating peripheral artery stenosis.

We estimate that we may complete the development work on our PVGuard and submit for CE mark approval in 2018.

Completed Clinical Trials for CGuard EPS — CARENET

The CARENET trial was the first multi-center study of CGuard EPS following the receipt of CE mark of this device in March 2013. The CARENET trial was designed to evaluate feasibility and safety of CGuard EPS in treatment of carotid lesions in consecutive patients suitable for coronary artery stenting ("CAS") in a multi-operator, real-life setting. The acute, 30 day, magnetic resonance imaging ("MRI"), ultrasound and six month clinical event results were presented at the LINC conference in Leipzig, Germany in February, 2015. In the third quarter of 2015, the results of the CGuard CARENET trial were published in the Journal of the American College of Cardiology. In November 2015, positive twelve month follow-up data from the CGuard CARENET trial was presented at the 42nd Annual Symposium on Vascular and Endovascular Issues, documenting the benefits of the CGuard MicroNet technology as well as the patency benefits (maintaining the artery open) of the internal and external carotid arteries at twelve months.

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MACCE (myocardial infarction ("MI"), stroke or death) was 0.0% at 30 days. At six months, there was one case of death, which was not stent or procedure-related, and MACCE was increased to 3.6%. At twelve months there were three cases of death, which were not stent or procedure-related, and MACCE was 11.1%.

	30 days (n=30)		6 months (n=28)		12 months (n=27)	
MACCE (MI, stroke, death)	(0)0.0	%	(1)3.6	%	(3)11.1	%
MI	(0)0.0	%	(0)0.0	%	(0)0.0	%
Stroke	(0)0.0	%	(0)0.0	%	(0)0.0	%
Death	(0)0.0	%	(1)3.6	%	(3)11.1	%

In addition, 30 day and 6 month follow-up data from the CARENET study determined the following MACCE events as compared to MACCE events from studies using conventional carotid stents:

	30 days (14 trials, 5255 patients)(1)		**6 months (3 trials, 1053 patients)(2)**	
MACCE (MI, stroke, death)	5.72	%	8.09	%

(1) Trials included in analysis: ARCHeR pooled, ARMOUR, BEACH, CABERNET, CREATE, EMPIRE, EPIC, MAVErIC 1+2, MAVErIC International, PRIAMUS, SAPPHIRE, SECURITY, PROFI, ICSS

(2) Values extrapolated from event curves (*source: The CARENET all-comer trial using the CGuard micronet-covered carotid embolic prevention stent, presented by Dr. Piotr Musialek at the LINC 2015 conference*)

CAS carries the risk of cerebral embolization during and following the procedure, leading to life-threatening complications, mainly cerebral ischemic events. Diffusion-weighted magnetic resonance imaging (DW-MRI) is a sensitive tool used to identify cerebral emboli during CAS by measuring "lesions" within the brain which are areas that are ischemic and do not receive oxygenated blood due to cerebral emboli. In the CARENET trial, 37.0% of patients treated with CGuard EPS had new ischemic lesions at 48 hours after the procedure, with an average volume of 0.039 cm^3. Of these lesions, there was only one that remained at 30 days following the procedure and all others had resolved. Complete details appear in the following table. Where there is a second number shown below after a ±,it indicates the rate of error.

	48 hours n=27	30 days n=26
Subjects with new Acute Ischemic Lesions (“AIL”)	10	1
Incidence of new lesions	37.0%	4.0%
Total number new AIL	83	1
Avg. number new AIL per patient	3.19 ± 10.33	0.04 ± 0.20
Average lesion volume (cm^3)	0.039 ± 0.08	0.08 ± 0.00
Maximum lesion volume (cm^3)	0.445	0.116
Permanent AIL at 30 days	—	1

The healing process of the tissue and in-stent restenosis can be measured by a non-invasive form of ultrasound called duplex ultrasound. This type of ultrasound measures the velocity of the blood that flows within the carotid arteries, which increases exponentially as the lumen of the internal carotid artery narrows and the percent stenosis increases. One of the measurements is called PSV (peak systolic volume) and is known to be highly correlated to the degree of in-stent restenosis; PSV values higher than 300 cm/sec are indicative of >70% stenosis, while PSV values lower than 104 cm/sec are indicative of <30% restenosis and healthy healing. In the CARENET trial, duplex ultrasound measurements done at 30 days, 6 months and 12 months following the stenting procedure all attest to healthy normal healing without restenosis concerns, as the PSV values were 60.96 cm/sec ± 22.31, 85.24 cm/sec ± 39.56, and 90.22 cm/sec ± 37.72 respectively. The internal carotid artery was patent in all patients (100%).

The conclusions of the CARENET trial were:

- CARENET trial demonstrated safety of CGuard EPS stent, with 30 day MACCE of 0%.
- Incidence of new ipsilateral lesions (percent of patients with new lesions on the ipsilateral side (same side where the stent was employed)) at 48 hours was reduced by almost half compared to published data, and volume was reduced almost tenfold.
- All but one lesion had resolved completely by 30 days.
- Twelve month data showed no change in peak systolic velocity between 6 months and 12 months, suggesting no restenosis concerns.
- CGuard EPS offers unique clinical benefits for patients undergoing CAS with unprecedented safety.

Ongoing Physician-Sponsored Clinical Trials for CGuard — PARADIGM Study

PARADIGM (**P**rospective evaluation of **A**ll-comer pe**R**cutaneous c**A**roti**D** revascularization **I**n symptomatic and increased-risk asymptomatic carotid artery stenosis, using C**G**uard™ **M**esh-covered embolic prevention stent system) is an investigator-led, single center study with the objective of evaluating feasibility and outcome of routine anti-embolic stent system in unselected, consecutive carotid patients (all-comers) referred for carotid revascularization, initiated in 2015.

The PARADIGM included evaluation of 71 CGuard EPS procedures in 68 unselected all-comer patients and continues to show favorable angiographic and clinical outcomes in using CGuard EPS in patients with carotid artery disease as follows:

- CGuard EPS success and procedure success rate were 100%.
- Periprocedural complications were 0% and remained at 0% at 30 days following the procedure.
- No major adverse cardiac or neurological events occurred periprocedurally or at 30 days following the procedure, pursuant to operator-independent neurologist and non-invasive cardiologist evaluation.

In May 2016, CGuard EPS reported positive results in PARADIGM-101, an investigator-led clinical evaluation of the CGuard EPS system for routine use in 101 consecutive, increased risk patients undergoing carotid artery stenting. In the PARADIGM-101 study, the investigator conducted clinical evaluation of the safety and periprocedural and 30 day clinical efficacy of routine use of the CGuard EPS system in unselected carotid stenosis patients, building upon the earlier PARADIGM study, and also assessed the CGuard EPS's ability to minimize vessel narrowing after carotid stenting. The results of the PARADIGM-101 study were presented at the EuroPCR 2016 Late-Breaking Clinical Trial Session in Paris, France.

The conclusions of the PARADIGM-101 study were:

- CGuard EPS delivery success was 99.1%. The clinical evaluation also found no device foreshortening or elongation.
- At 48 hours, MACCE was at 0%.

- At 30 days, MACCE was at 0% as determined by independent neurological and angiographic evaluation.

The results of the PARADIGM-101 study support that CGuard EPS can safely be used on a high risk, all-comer population of patients with carotid artery stenosis and indicate that routine use of CGuard EPS may prevent cerebral events, such as strokes, by holding plaque against the vessel wall, preventing emboli from being released into the blood stream.

Ongoing Physician-Initiated Study for CGuard — IRON-Guard Registry

The IRON-Guard (**I**talian **R**egistry of car**O**tid ste**N**ting with the C-**GUARD** mesh-stent) is a physician-initiated, Italian, prospective, multicenter, single-arm study with a total of 200 patients from 29 clinicians from 23 different centers planned to be enrolled. The objective of the registry is to evaluate the clinical outcome of treatment by means of stenting with the CGuard patients requiring CAS due to significant extra-cranial carotid artery stenosis. The primary endpoint of this study is the 30-day rate of major adverse events, defined as the cumulative incidence of any periprocedural (≤ 30 days post-procedure) death, stroke or MI. The secondary endpoints are rate of late ipsilateral stroke (31 through 365 days), system technical success, device malfunctions, major adverse events, serious device-related and procedure-related adverse events, target lesion revascularization, and in-stent restenosis rates. The anticipated duration of this study is approximately 24 months, namely 12 months per patient follow-up, with a recruitment period of 12 months. (*source: Setacci, et. al., J Cardiovasc Surg. 2015 May 2*)

Completed Clinical Trials for MGuard Bare-Metal Coronary Products

We have completed eight clinical trials with respect to our first generation stainless steel-based MGuard stent and our cobalt-chromium based MGuard Prime EPS stent. Our first generation MGuard stent combining the MicroNet with a stainless steel stent received CE mark approval for the treatment of coronary artery disease in the European Union in October 2007. We subsequently replaced the stainless steel stent with a more advanced cobalt-chromium based stent for MGuard Prime EPS.

The First in Men (FIM) study conducted in Germany from the fourth quarter of 2006 through the second quarter of 2008 focused on patients with occlusion in their stent graft. This group is considered to be in “high risk” for complications during and shortly after the procedure due to the substantial risk of occurrence of a thromboembolic event. The study demonstrated MGuard stent’s safety in this high risk group. This study was followed by the GUARD study in Brazil in 2007 with a similar patient population which reinforced the safety profile of MGuard stents in patients prone to procedural complications. The MAGICAL study was a pilot study in STEMI patients conducted in Poland from 2008 through 2012 which demonstrated safety, measured by MACE rates at 30 days following the stent procedure, as well as efficacy results, measured by the ability of MGuard to reestablish blood flow into the infarcted area of the muscle. Furthermore, we conducted three registries (iMOS, IMR and iMOS Prime) that confirmed the feasibility of MGuard and MGuard Prime EPS for the treatment of STEMI patients and the safety of MGuard and MGuard Prime EPS in the STEMI patient group. Safety was repeatedly demonstrated in these trials and registries by the low mortality rate in the first month after the procedure.

In the second calendar quarter of 2011, we began the MGuard for Acute ST Elevation Reperfusion Trial (which we refer to as our "MASTER I trial"), a prospective, randomized study, which demonstrated that among patients with acute STEMI undergoing emergency PCI, patients treated with MGuard had superior rates of epicardial coronary flow (blood flow within the vessels that run along the outer surface of the heart) and complete ST-segment resolution, or restoration of blood flow to the heart muscle after a heart attack, compared to those treated with commercially-approved bare metal or drug-eluting stents. The results of this trial are summarized in greater detail below.

Finally, the MASTER II trial, which we initially initiated as part of our efforts to seek approval of our MGuard Prime EPS by the U.S. Food and Drug Administration, was discontinued at our election in its current form in light of market conditions moving toward the use of drug-eluting stents over bare-metal stents. Analysis of the patients already enrolled in the MASTER II trial prior to its suspension, however, reconfirmed the MASTER I safety results due to a continued low mortality rate.

MASTER I Trial

In the second calendar quarter of 2011, we began the MASTER I trial, a prospective, randomized study in Europe, South America and Israel to compare the MGuard with commercially-approved bare metal and drug-eluting stents in achieving superior myocardial reperfusion (the restoration of blood flow) in primary angioplasty for the treatment of acute STEMI. The MASTER I trial enrolled 433 subjects, 50% of whom were treated with an MGuard stent and 50% of whom were treated with a commercially-approved bare metal or drug-eluting stent. The detailed acute and 30 days results from the trial were presented at the TCT conference on October 24, 2012 and published (Prospective, Randomized, Multicenter Evaluation of a Polyethylene Terephthalate Micronet Mesh–Covered Stent (MGuard) in ST-Segment Elevation Myocardial Infarction, Stone et. Al, *JACC*, 60; 2012). The results were as follows:

- The primary endpoint of post-procedure complete ST-segment resolution was statistically significantly improved in patients randomized to the MGuard stent compared to patients receiving a commercially-approved bare metal or drug-eluting stent (57.8% vs. 44.7%).

- Patients receiving the MGuard stent exhibited superior rates of thrombolysis in myocardial infarction (TIMI) 3 flow, which evidences normal coronary blood flow that fills the distal coronary bed completely, as compared to patients receiving a commercially-approved bare metal or drug-eluting stent (91.7% vs. 82.9%), with comparable rates of myocardial blush grade 2 or 3 (83.9% vs. 84.7%) and corrected TIMI frame count (cTFC) (17.0 vs. 18.1), all markers of optimal blood flow to the heart.

- Angiographic success rates (attainment of <50% final residual stenosis of the target lesion and final TIMI 3 flow) were higher in the MGuard group compared to commercially-approved bare metal or drug-eluting stents (91.7% vs 82.4%).

- Mortality (0% vs. 1.9%) and major adverse cardiac events (1.8% vs. 2.3%) at 30 days post procedure were not statistically significantly different between patients randomized to the MGuard stent as opposed to patients randomized to commercially-approved bare metal or drug-eluting stents. All other major adverse cardiac event components, as well as stent thrombosis, were comparable between the MGuard stent and commercially-approved bare metal or drug-eluting stents.

The six month results from the MASTER I trial, which were presented at the 2013 EuroPCR Meeting, the official annual meeting of the European Association for Percutaneous Cardiovascular Interventions, on May 23, 2013 in Paris, France. The results were as follows:

- Mortality (0.5% vs. 2.8%) and major adverse cardiac events (5.2% vs. 3.4%) at 6 months post procedure were not statistically significantly different between patients randomized to the MGuard stent as compared to patients randomized to commercially-approved bare metal or drug-eluting stents. All other major adverse cardiac event components, as well as stent thrombosis, were comparable between patients treated with MGuard stent and those treated with commercially-approved bare metal or drug-eluting stents.

The twelve month results from the MASTER I trial were presented at the TCT conference on October 29, 2013 and published (Mesh-Covered Embolic Protection Stent Implantation in ST-Segment–Elevation Myocardial Infarction Final 1-Year Clinical and Angiographic Results From the MGUARD for Acute ST Elevation Reperfusion Trial, Dudek e. el, *Coronary Interventions*, 2014. The results were as follows:

- Mortality (1.0% vs. 3.3%) and major adverse cardiac events (9.1% vs. 3.3%) at 12 months post procedure were not statistically significantly different between patients randomized to the MGuard stent as opposed to those randomized to commercially-approved bare metal or drug-eluting stents. All other major adverse cardiac events, as well as stent thrombosis, were comparable between the MGuard stent and commercially-approved bare metal or drug-eluting stents.

In summary, the MASTER I trial demonstrated that among patients with acute STEMI undergoing emergency PCI patients treated with MGuard stent had superior rates of epicardial coronary flow (blood flow within the vessels that run along the outer surface of the heart) and complete ST-segment resolution compared to those treated with commercially-approved bare metal or drug-eluting stents. In addition, patients treated with MGuard stent showed a slightly lower mortality rate and a slightly higher major adverse cardiac event rate as compared to patients treated with commercially-approved bare metal or drug-eluting stents six and twelve months post procedure.

A detailed table with the results from the MASTER I trial is set forth below. The “p-Value” refers to the probability of obtaining a given test result. Any p value less than 0.05 is considered statistically significant.

	MGuard Stent	Bare Metal Stents/Drug Eluting Stents	p-Value
Number of Patients	217	216	—
TIMI 0-1	1.8	5.6	0.01
TIMI 3	91.7	82.9	0.006
Myocardial blush grade 0-1	16.1	14.8	0.71
Myocardial blush grade 3	74.2	72.1	0.62
ST segment resolution >70	57.8	44.7	0.008
30 day major adverse cardiac event	1.8	2.3	0.75
6 month major adverse cardiac event	5.2	3.4	0.34
12 month major adverse cardiac event	9.1	3.3	0.02

Future Clinical Trials for CGuard EPS and MGuard Prime EPS

Post-marketing clinical trials (outside the United States) could be conducted to further evaluate the safety and efficacy of CGuard EPS in specific indications. These trials would be designed to facilitate market acceptance and expand the use of the product. We should be able to rely upon CE mark approval of the product and other supporting clinical data to obtain local approvals.

We are currently preparing materials required to conduct a clinical trial in the United States and have a draft clinical protocol synopsis that we believe could support a clinical trial for submission for approval by the U.S. Food and Drug Administration. Once complete, we plan to request a pre-submission guidance meeting with the U.S. Food and Drug Administration.

We do not anticipate conducting additional post-marketing clinical trials for our bare-metal MGuard coronary products.

Competition

The markets in which we compete are highly competitive, subject to change and impacted by new product introductions and other activities of industry participants.

Carotid

The carotid stent markets in the United States and Europe are dominated by Abbott Laboratories, Boston Scientific Corporation, Covidien Ltd. (currently part of Medtronic, Inc.), and Cordis Corporation. Gore Medical and Terumo Medical Corporation produce mesh-covered carotid stents. All of these larger companies have substantially greater capital resources, larger customer bases, broader product lines, larger sales forces, greater marketing and management resources, larger research and development staffs and larger facilities than ours and have established reputations and relationships with our target customers, as well as worldwide distribution channels that are more effective than ours. However, we believe that the European market is somewhat fragmented, and, in our opinion, smaller competitors may be able to gain market share with greater flexibility.

Coronary

The bare-metal stent and the drug-eluting stent markets in the United States and Europe are dominated by Abbott Laboratories, Boston Scientific Corporation, and Medtronic, Inc. In the future, we believe that physicians will look to next-generation stent technology to compete with existing therapies. These new technologies will likely include bio-absorbable stents, stents that focus on treating bifurcated lesions, and stents with superior polymer and drug coatings, and many industry participants are working to improve stenting procedures in the future as the portfolio of available stent technologies rapidly increases.

According to the MEDTECH OUTLOOK, the three major players (Abbott Laboratories, Boston Scientific Corporation and Medtronic, Inc.) in the worldwide coronary stent market have a combined total market share of approximately 92%. To date, our sales are not significant enough to register in market share. As such, one of the challenges we face to further our product growth is the competition from numerous pharmaceutical and biotechnology companies in the therapeutics area, as well as competition from academic institutions, government agencies and research institutions. 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. Due to ongoing consolidation in the industry, there are high barriers to entry for small manufacturers in both the European and the United States markets.

Neurovascular

Stryker Corporation dominated the global interventional neurology market in 2014. The other key players in this market include Medtronic plc, Johnson & Johnson, Terumo Corporation, Penumbra, Inc., Abbott Laboratories, Merit Medical Systems, Inc., W. L. Gore & Associates, Inc., Microport Scientific Corporation, and Medikit Co., Ltd., among others. (*source: Markets and Markets 2015).*

Research and Development Expenses

During the twelve months ended December 31, 2015 and 2014, we spent $3.6 million and $8.7 million, respectively, on research and development.

Sales and Marketing

Sales and Marketing

Currently, we are actively selling our MGuard coronary products with a bio-stable MicroNet through local distributors in Europe, Latin America, the Middle East and Asia.

Based on the positive CGuard EPS clinical data, we commercially launched CGuard EPS in CE marked countries in early 2015. We initially sold CGuard products through a distributor network as we did with MGuard coronary products. On August 5, 2015, InspireMD, Ltd., our wholly owned subsidiary, entered into a distribution agreement with Penumbra, Inc., and, in September 2015, we announced full market launch of CGuard EPS by Penumbra, Inc. in 18 CE marked countries in Europe.

We plan to focus our marketing efforts primarily on Europe, Asia and Latin America. In addition to utilizing local and regional distributor networks, we are using international trade shows and industry conferences to gain market exposure and brand recognition. We plan to work with leading physicians to enhance our marketing efforts.

Product Positioning

The MGuard coronary products have initially penetrated the market by entering segments with indications that present high risks of embolic dislodgement, notably acute MI and saphenous vein graft coronary interventions. Even though MGuard technology has demonstrated its advantages with clinical data, it is based on a bare-metal platform while the market demand has shifted away from bare-metal stents in favor of drug-eluting stents.

When treating carotid artery disease, we believe that there is an opportunity to enter the market with bare-metal stent platform and to become a competitive player without a drug-eluting stent platform. Therefore, we believe that CGuard EPS is poised for commercial growth in 2016 as more and more positive clinical data is presented. Finally, we do not expect that it would be crucial to use a drug-eluting stent platform to compete in certain new markets such as the neurovascular market, and hence, we plan to continue to explore this area of opportunity.

Insurance Reimbursement

In most countries, a significant portion of a patient's medical expenses is covered by third-party payers. Third-party payers can include both government funded insurance programs and private insurance programs. While each payer develops and maintains its own coverage and reimbursement policies, the vast majority of payers have similarly established policies. All of the MGuard coronary products and CGuard products sold to date have been designed and labeled in such a way as to facilitate the utilization of existing reimbursement codes, and we intend to continue to design and label our present and future products in a manner consistent with this goal.

While most countries have established reimbursement codes for stenting procedures, certain countries may require additional clinical data before recognizing coverage and reimbursement for the MGuard coronary products and CGuard products or in order to obtain a higher reimbursement price. In these situations, we intend to complete the required clinical studies to obtain reimbursement approval in countries where it makes economic sense to do so.

Intellectual Property

Patents

We have filed sixteen patent applications, twelve of which are pending in the United States covering aspects of our MGuard and CGuard technology. We have filed corresponding patent applications to some of these in Canada, China, Europe, Israel, India and South Africa, for an aggregate total of 46 patents and pending applications including four issued U.S. patents. These patent rights are directed to cover percutaneous therapy, knitted stent jackets, stent and filter assemblies, *in vivo* filter assembly, optimized stent jackets, stent apparatuses for treatment via body lumens and methods of use, stent apparatuses for treatment via body lumens and methods of manufacture and use, among others. In lay terms, these patent applications generally cover three aspects of our products: the mesh sleeve with and without a drug, the product and the delivery mechanism of the stent. On October 27, 2010, our South African patent application pertaining to “Stent Apparatus for Treatment via Body Lumens and Method of Use” was issued as South African Patent No. 2007/10751. On October 25, 2011, our patent application pertaining to “In Vivo Filter Assembly,” U.S. Patent Application 11/582,354, was issued as U.S. Patent 8,043,323. On June 13, 2012, our patent application pertaining to “Filter Assemblies,” Chinese Patent Application No. 200780046659.9, was issued as Chinese Patent No. ZL200780046659.9. On September 26, 2012, our patent application pertaining to “Bifurcated Stent Assemblies,” Chinese Patent Application No. 200780046676.2, was issued as Chinese Patent No. ZL200780046676.2. On October 10, 2012, our patent application pertaining to “Knitted Stent Jackets,” Chinese Patent Application No. 200780046697.4, was issued as Chinese Patent No. ZL200780046697.4. On January 2, 2013, our patent application pertaining to “Optimized Stent Jacket,” Chinese Patent Application No. 200780043259.2, was issued as Chinese Patent No. ZL200780043259.2. We have also had Israeli Patent No. 198189 entitled “Filter Assemblies” issued March 27, 2014, and Patent No. 198190, entitled “Knitted Stent Jackets” issued Feb. 1, 2014, and Canadian Patent No. 2609687 entitled “Stent Apparatuses For Treatment Via Body Lumens” issued April 22, 2014. Israeli Patent No. 198,188 entitled “Bifurcated Stent Assemblies” issued May 1, 2014 and Israeli Patent No. 198,665 entitled “Optimized Stent Jacket” issued May 28, 2014. U.S. Patent Application No. 11/797,168, filed May 1, 2007, was issued as U.S. Patent No. 8,961,586 on February 24, 2015. Canadian Patent No. 2,666,712 entitled “Filter Assemblies” issued March 31, 2015. Canadian Patent No. 2,666,728 entitled “Knitted Stent Jackets” issued June 23, 2015. U.S. Patent No. 9,132,261 entitled “*In Vivo* Filter Assembly” and U.S. Patent No. 9,132,003, entitled “Optimized Drug-Eluting Stent Assembly” each issued September 15, 2015. Canadian Patent No. 2,843,097 entitled “Stent Apparatuses for Treatment Via Body Lumens and Methods of Use” issued October 27, 2015. Chinese Patent No. 201210320950.3 entitled “Knitted Stent Jackets” issued December 2, 2015. Chinese Patent No. ZL201210454357.8, entitled “Optimized Stent Jacket” issued December 9, 2015. We also believe that one or more additional pending patent applications, upon issuance, will cover our existing products. We also believe that the patent applications we have filed, in particular those covering the use of a knitted micron-level mesh sleeve over a stent for various indications, if issued as patents with claims substantially in their present form, would likely create a significant barrier for another company seeking to use similar technology.

Trademarks

We use the InspireMD®, MGuard® and MGuard Prime® trademarks in connection with our products. We have registered these trademarks in the European Union. The trademarks are renewable indefinitely, so long as we make the appropriate filings when required. We also have registrations for Carenet®, CGuard® and the MNP Micronet Protection Logo in the European Union and a supplemental registration for Micronet® in the United States. We have also applied to register the names Carenet™, CGuard™ InspireMD™, SmartFit™, PV, NGuard™, AGuard™, and MGuard Prime™ as trademarks in the United States We also use and may have common law rights to various trademarks, trade names, and service marks.

Government Regulation

The manufacture and sale of our products are subject to regulation by numerous governmental authorities, principally the European Union CE mark, the U.S. Food and Drug Administration and other corresponding foreign agencies.

Sales of medical devices outside the United States are subject to foreign regulatory requirements that vary widely from country to country. These laws and regulations range from simple product registration requirements in some countries to complex clearance, clinical tests and production controls in others. As a result, the processes and time periods required to obtain foreign marketing approval may be longer or shorter than those necessary to obtain U.S. Food and Drug Administration market authorization. These differences may affect the efficiency and timeliness of international market introduction of our products. For countries in the European Union, medical devices must display a CE mark before they may be imported or sold. In order to obtain and maintain the CE mark, we must comply with the Medical Device Directive 93/42/EEC by presenting comprehensive technical files for our products and passing initial and annual quality management system audit inspections to the ISO 13485 standard by an European Notified Body. We have obtained ISO 13485 quality system certification and the products we currently distribute into the European Union display the required CE mark. In order to maintain certification, we are required to pass annual facilities audit inspections conducted by European Notified Body inspectors.

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As noted below, we have regulatory approval and have made sales in MGuard Prime EPS, CGuard EPS or both products either through distributors pursuant to distribution agreements or directly, in the following countries: Argentina, Australia, Austria, Belarus, Belgium, Brazil, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Serbia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, and the United Kingdom. In addition, we have distribution agreements for our products in Uzbekistan, Canada, Venezuela, and Armenia, although we have not yet obtained regulatory approval to sell our products in those countries, and we are awaiting regulatory approval to sell our products in Russia (for CGuard EPS) and Malaysia. While each of the European Union member countries accepts the CE mark as its sole requirement for marketing approval, some of these countries still require us to take additional steps in order to gain reimbursement rights for our products. Furthermore, while we believe that certain of the above-listed countries that are not members of the European Union accept the CE mark as a primary requirement for marketing approval, each such country requires additional regulatory requirements for final marketing approval of our products. Furthermore, we are currently targeting additional countries in Europe, Asia, and Latin America, however, even if all governmental regulatory requirements are satisfied in each such country, we anticipate that obtaining marketing approval in each country could take as few as three months or as many as twelve months or more, due to the nature of the approval process in each individual country, including typical wait times for application processing and review, as discussed in greater detail below.

In October 2007, our first generation MGuard stent combining the MicroNet with a stainless steel stent received CE mark approval for the treatment of coronary artery disease in the European Union. We subsequently replaced the first generation MGuard product with MGuard Prime EPS, which uses a more advanced cobalt-chromium based stent. Our MGuard Prime EPS received CE mark approval in the European Union in October 2010 and marketing approval in those countries listed in the table below. We are currently seeking marketing approval for the MGuard Prime EPS in Malaysia. We are focused on seeking marketing approval in these countries because we believe that these countries represent the strongest opportunities for us to grow with respect to our sales.

The CGuard EPS received CE mark approval in the European Union on March 14, 2013 and marketing approval in those countries listed in the table below. We are currently seeking marketing approval for CGuard EPS in Brazil and Russia.

Please refer to the table below setting forth the approvals and sales made for CGuard EPS and the MGuard Prime EPS on a country-by-country basis.

Approvals and Sales of MGuard Prime EPS and CGuard EPS on a Country-by-Country Basis

CGuard EPS Sales

Countries	**MGuard Prime EPS Approval**	**MGuard Prime EPS Sales**	**CGuard EPS Approval**	
Argentina	Y	Y	Y	Y
Armenia	N	N	N	N
Australia	Y	Y	N	N
Austria	Y	Y	Y	N
Belarus	Y	Y	Y	Y
Belgium	Y	Y	Y	N
Brazil	Y	Y	N	N
Chile	N	Y (1)	N	Y (1)
Colombia	Y	Y	Y	Y
Croatia	Y	Y	Y	N
Cyprus	Y	Y	Y	Y
Czech Republic	Y	Y	Y	N
Denmark	Y	N	Y	N
Estonia	Y	Y	Y	N

Countries	MGuard Prime EPS Approval	MGuard Prime EPS Sales	CGuard EPS Approval	CGuard EPS Sales
Finland	Y	Y	Y	N
France	Y	Y	Y	N
Germany	Y	Y	Y	Y
Greece	Y	N	Y	N
Holland (Netherlands)	Y	Y	Y	Y
Hungary	Y	Y	Y	N
Iceland	Y	N	Y	N
India	Y	N	N	N
Ireland	Y	Y	Y	N
Israel	Y	Y	Y	Y
Italy	Y	Y	Y	Y
Kazakhstan	N	N	N	N
Latvia	Y	Y	Y	Y
Lithuania	Y	Y	Y	Y
Liechtenstein	Y	N	Y	N
Luxemburg	Y	N	Y	N
Malaysia	N	Y (2)	N	N
Malta	Y	Y	Y	N
Mexico	Y	Y	N	N
Norway	Y	Y	Y	N
Poland	Y	Y	Y	Y
Portugal	Y	N	Y	N
Romania	Y	Y	Y	Y
Russia	Y	Y	N	N
Saudi Arabia	Y	Y	N	N
Serbia	Y	N	N	N
Slovakia	Y	Y	Y	Y
Slovenia	Y	Y	Y	Y
South Africa	Y (3)	Y	N	N
Spain	Y	Y	Y	Y
Sweden	Y	Y	Y	N
Switzerland	Y	Y	Y	N
Taiwan	Y	N	N	N
United Kingdom	Y	Y	Y	N
Uzbekistan	N	N	N	N
Venezuela	N	N	N	N

(1) We have made sales to distributors in this country, but based upon information from such distributors, we believe that the product has not been sold to customers in this country.

(2) Due to the changes made to the relevant regulations in Malaysia that became effective in November 2015, we are required to register our product. Sales of MGuard Prime EPS were made to our distributor in Malaysia prior to the date such change became effective. On November 29, 2015 we initiated registration process required pursuant to the amended regulation.

(3) We believe that we have regulatory approval for MGuard Prime EPS in South Africa based upon information from our former distributor in such country, who was responsible for obtaining the regulatory approval for MGuard Prime EPS. However, the certificate evidencing regulatory approval was held by our former distributor and we cannot guarantee that it is in full force and effect. Our distribution agreement with the distributor in South Africa expired pursuant to the terms of such distribution agreement on February 1, 2015.

In the United States, the medical devices that will be manufactured and sold by us will be subject to laws and regulations administered by the U.S. Food and Drug Administration, including regulations concerning the prerequisites to commercial marketing, the conduct of clinical investigations, compliance with the Quality System Regulation and labeling. We anticipate that our CGuard EPS will be classified as a Class III medical device by the U.S. Food and Drug Administration.

A manufacturer may seek market authorization for a new medical device through the rigorous premarket approval application process, which first requires that the U.S. Food and Drug Administration determine that the device is safe and effective for the purposes intended.

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We will also be required to register with the U.S. Food and Drug Administration as a medical device manufacturer. As such, our manufacturing facilities will be subject to U.S. Food and Drug Administration inspections for compliance with Quality System Regulation. These regulations will require that we manufacture our products and maintain our documents in a prescribed manner with respect to design, manufacturing, testing and quality control activities. As a medical device manufacturer, we will further be required to comply with U.S. Food and Drug Administration requirements regarding the reporting of adverse events associated with the use of our medical devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. U.S. Food and Drug Administration regulations also govern product labeling and prohibit a manufacturer from marketing a medical device for unapproved applications. If the U.S. Food and Drug Administration believes that a manufacturer is not in compliance with the law, it can institute enforcement proceedings to detain or seize products, issue a recall, enjoin future violations and assess civil and criminal penalties against the manufacturer, its officers and employees.

Customers

Our customer base is varied. We began shipping our product to customers in Europe in January 2008 and have since expanded our global distribution network to Southeast Asia, India, Latin America and Israel. We currently have distribution agreements for our CE mark-approved MGuard Prime EPS and/or CGuard EPS with medical product distributors based in Europe, the Middle East, Asia Pacific, Australia and Latin America. We are currently in discussions with additional distribution companies in Europe, Asia, and Latin America.

For the twelve months ended December 31, 2015, 79% of our revenue was generated in Europe, and 17% of our revenue was generated in Latin America, with the remaining 4% of our revenue generated in the rest of the world. Our major customers in the twelve months ended December 31, 2015 were Avidal Group GmbH, a distributor in Germany that accounted for 11% of our revenues, and Cardio Medical Sales L.P, a distributor in Belarus that accounted for 10% of our revenues.

Our agreement with Avidal Group GmbH grants Avidal Group GmbH the right to be a distributor of MGuard Prime EPS and CGuard EPS in Germany until March 2017, subject to the achievement of certain order minimums. The term of the agreement may be renewed for an additional 12 month term by written consent of both parties no later than October 31 of the last year of the term. Either party may terminate the agreement for any reason with 60 days' prior written notice. Under our agreement with Avidal Group GmbH, as amended, Avidal Group GmbH was required to purchase 850 MGuard Prime EPS and 225 CGuard EPS from us in 2015. Although Avidal Group GmbH did not adhere to their order minimum for 2015, we did not terminate their right to be our distributor of MGuard Prime EPS and CGuard EPS in Germany.

Our agreement with Cardio Medical Sales L.P, as amended, grants Cardio Medical Sales L.P the right to be the non-exclusive distributor of MGuard Prime EPS and CGuard EPS in Belarus until December 2016, subject to the achievement of certain order minimums. Under our agreement with Cardio Medical Sales L.P, Cardio Medical Sales L.P was required to purchase 450 MGuard Prime EPS from us in 2015, 70 MGuard Prime EPS in 2016 and 30 CGuard EPS in 2016. Although Cardio Medical Sales L.P did not adhere to their order minimum for 2015, we did not terminate their right to be our exclusive distributor of MGuard Prime EPS and CGuard EPS in Belarus.

Penumbra Distribution Agreement

On August 5, 2015, InspireMD, Ltd., our wholly owned subsidiary, entered into a distribution agreement with Penumbra, Inc., pursuant to which Penumbra, Inc. will act as the exclusive distributor of CGuard EPS in Austria, France, Sweden, Denmark, Norway, Finland, Estonia, Lithuania, Portugal, Switzerland and the United Kingdom and Ireland. The territory covered by the distribution agreement also includes non-exclusive rights to distribute CGuard EPS in Latvia, Belgium, the Netherlands, Luxembourg, Germany and Poland.

Under the terms of the distribution agreement, we will use all commercially reasonable efforts to obtain all required permits, licenses and other approvals necessary to import, market or sell CGuard EPS in the territory covered by the distribution agreement. Within 60 days after receipt of all such required approvals in a given territory, Penumbra, Inc. will place its initial stocking order for CGuard EPS, for which Penumbra, Inc. will pay one-half of the purchase price upon placing such order and the remainder of the purchase price 30 days after receipt of CGuard products and our invoice for such CGuard EPS products. If, in our reasonable discretion, Penumbra, Inc. fails to order a sufficient quantity of CGuard EPS to successfully commercialize CGuard EPS in the applicable territory, then we may reduce the territory covered by the distribution agreement upon providing 60 days' notice to Penumbra, Inc.

The distribution agreement requires Penumbra, Inc. to use commercially reasonable efforts to purchase CGuard EPS in certain minimum target amounts agreed to by the parties for the 2015 and 2016 calendar years. For all subsequent calendar years during the term of the distribution agreement, the parties will agree to the minimum annual purchase targets at least 30 days prior to the commencement of such calendar year, which shall be determined in good faith by mutual agreement, taking into account various relevant factors, including but not limited to the sales attained during the preceding calendar year and prevailing market conditions. The parties fixed the initial prices to be paid by Penumbra, Inc. for CGuard EPS through December 31, 2015, which were subject to certain reductions for inventory shelf life and other adjustments negotiated by the parties.

The initial term of the distribution agreement ends on December 31, 2018, unless sooner terminated pursuant to the termination rights set forth in the distribution agreement. Either party may terminate the distribution agreement (i) without cause upon providing 60 days' notice to the other party, (ii) upon the other party's material breach of the distribution agreement, which is not cured 30 days after written notice of such breach from the non-breaching party to the breaching party and (iii) immediately without notice upon the bankruptcy, insolvency, dissolution, assignment for the benefit of creditors or similar event with respect to the other party. We may also terminate the distribution agreement if we reasonably believe that Penumbra, Inc., or any party acting on its behalf, has violated the United States Foreign Corrupt Practices Act of 1977. In addition, if at any time during the term of the distribution agreement, Penumbra, Inc. distributes or offers for sale products that, in our reasonable judgment, compete with CGuard EPS, then we may terminate the distribution agreement or change the exclusive rights granted to non-exclusive rights upon providing 30 days' notice to Penumbra, Inc.

Pursuant to the distribution agreement, we are subject to customary covenants and other continuing regulatory, record-keeping and reporting obligations.

The distribution agreement also contains a limited three year warranty for CGuard EPS and other mutual confidentiality and indemnification obligations for us and Penumbra, Inc.

Most of our current agreements with our distributors stipulate that, and we expect our future agreements with our distributors to stipulate that, while we shall assist in training by providing training materials, marketing guidance, marketing materials, and technical guidance, each distributor will be responsible for carrying out local registration, sales and marketing activities. In addition, in most cases, all sales costs, including sales representatives, incentive programs, and marketing trials, will be borne by the distributor. Under current agreements, distributors purchase stents from us at a fixed price. Our current agreements with distributors are generally for a term of two to three years.

Manufacturing and Suppliers

The polymer fiber for MicroNet is supplied by Biogeneral, Inc., a San Diego, California-based specialty polymer manufacturer for medical and engineering applications.

Natec Medical Ltd. supplies us with catheters that help create the base for our CGuard EPS stents. Our agreement with Natec Medical Ltd., as amended, which may be terminated by us upon eight months' notice, calls for a minimum order of 2,000 catheters and commitment to purchase the remaining stock of components for production of the catheters in the event we fail to meet the minimum order for up to approximately $87,000 in 2016.

Natec Medical Ltd. supplies us with catheters that help create the base for our MGuard Prime EPS. Our agreement with Natec Medical Ltd., which may be terminated by either party upon six months' notice, calls for non-binding minimum orders.

The cobalt-chromium stent for our MGuard Prime EPS was designed by Svelte Medical Systems Inc. We have an agreement with Svelte Medical Systems Inc., as amended, that grants us a non-exclusive, worldwide license for production and use of the MGuard Prime cobalt-chromium stent for the life of the stent's patent, subject to the earlier termination of the agreement upon the bankruptcy of either party or the uncured default by either party under any material provision of the agreement. Our royalty payments to Svelte Medical Systems Inc. are determined by the sales volume of MGuard Prime EPS. Currently, the royalty rate is 2.9% of all net sales. We have mutual indemnification obligations with Svelte Medical Systems Inc. for any damages suffered as a result of third party actions based upon breaches of representations and warranties or the failure to perform certain covenants in the license agreement, and Svelte Medical Systems Inc. will also indemnify us for any damages suffered as a result of third party actions based upon intellectual property or design claims against the cobalt-chromium stent for the MGuard Prime EPS.

We manufacture our CGuard EPS and MGuard Prime EPS at our own facility. The bare-metal cobalt-chromium stents for our MGuard Prime EPS and the self-expanding bare-metal stents for our CGuard EPS are being manufactured and supplied by MeKo Laserstrahl-Materialbearbeitung. Our agreement with MeKo Laserstrahl-Materialbearbeitung for the production of electro polished L605 bare-metal stents for MGuard Prime EPS and CGuard EPS is priced on a per-stent basis, subject to the quantity of stents ordered. The complete assembly process for MGuard Prime EPS and CGuard EPS, including knitting and securing the sleeve to the stent and the crimping of the sleeve stent on to a balloon catheter, is done at our Israel manufacturing site. Once MGuard Prime EPS and CGuard EPS have been assembled, they are sent for sterilization in Germany and then back to Israel for final packaging.

Each MGuard stent is manufactured from two main components, the stent and the mesh polymer. The stent is made out of cobalt chromium. This material is readily available and we acquire it in the open market. The mesh is made from polyethylene terephthalate. This material is readily available in the market as well, because it is used for many medical applications. In the event that our supplier can no longer supply this material in fiber form, we would need to qualify another supplier, which could take several months. In addition, in order to retain the approval of the CE mark, we are required to perform periodic audits of the quality control systems of our key suppliers in order to insure that their products meet our predetermined specifications

A CGuard EPS consists of a CGuard stent and the delivery system. Each CGuard stent is manufactured from two main components, a self-expending stent and the mesh polymer. The stent is made out of nitinol. This material is readily available and we acquire it in the open market. The mesh is made from polyethylene terephthalate. We have pending patent rights that cover the proposed CGuard stent with mesh. This material is readily available in the market as well, because it is used for many medical applications. In the event that our supplier can no longer supply this material in fiber form, we would need to qualify another supplier, which could take several months. The delivery system for CGuard is made out of polymer tubes we acquire from an original equipment manufacturer. In the event that our supplier can no longer supply this material, we would need to qualify another supplier, which could take several months. In addition, in order to retain the approval of the CE mark, we are required to perform periodic audits of the quality control systems of our key suppliers in order to insure that their products meet our predetermined specifications.

Employees

As of June 24, 2016, we had 33 full-time employees. Except for one of our employees in Europe, our employees are not party to any collective bargaining agreements. We do not expect the collective bargaining agreements to which our employees are party to have a material effect on our business or results of operations. We consider our relations with our employees to be good. We believe that our future success will depend, in part, on our continued ability to attract, hire and retain qualified personnel.

Properties

Our headquarters are located in Boston, Massachusetts, where we lease approximately 1,580 square feet of executive office space. In addition, in Tel Aviv, Israel, we currently have a 1,000 square meter office and manufacturing facility that has the capacity to manufacture and assemble 4,800 stents per month, based upon the production schedule of one shift per day. We believe that our current facility is sufficient to meet anticipated future demand by adding additional shifts to our current production schedule.

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. Due to the uncertainties of litigation, however, we can give no assurance that we will prevail on any claims made against us 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 other than the foregoing suit filed by Microbanc, LLC and Todd Spenla.

There are no 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 an adverse party or has a material interest adverse to our interest.

Corporate Information

We were organized in the State of Delaware on February 29, 2008. Our principal executive offices are located at 321 Columbus Avenue, Boston, Massachusetts 02116. Our telephone number is (857) 305-2410. Our website address is *www.inspire-md.com*. Information accessed through our website is not incorporated into this prospectus and is not a part of this prospectus.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information regarding our executive officers and the members of our board of directors.

Name	Age	Position
James Barry, Ph.D.	56	President, Chief Executive Officer and Director
Craig Shore	55	Chief Financial Officer, Chief Administrative Officer, Secretary and Treasurer
Sol J. Barer, Ph.D.(1)(2)(3)	68	Chairman of the Board of Directors
Isaac Blech	66	Vice Chairman of the Board of Directors
Michael Berman(1)(2)	58	Director
Campbell Rogers, M.D.	54	Director
Paul Stuka(1)(2)(3)	61	Director

(1) Member of our audit committee

(2) Member of our nominating and corporate governance committee

(3) Member of our compensation committee

Our directors hold office until the earlier of their death, resignation or removal by stockholders or until their successors have been qualified. Our directors are divided into three classes. Sol J. Barer, Ph.D. and Paul Stuka are our Class 1 directors, with their terms of office to expire at our 2018 annual meeting of stockholders. Michael Berman and Campbell Rogers, M.D. are our Class 2 directors, with their terms of office to expire at our 2019 annual meeting of stockholders. Isaac Blech and James Barry, Ph.D. are our Class 3 directors, with their terms of office to expire at our 2017 annual meeting of stockholders. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

Our officers hold office until the earlier of their death, resignation or removal by our board of directors or until their successors have been selected. They serve at the pleasure of our board of directors.

James Barry, Ph.D. has served as our president and chief executive officer since June 6, 2016, and as a director since January 30, 2012. Prior to becoming our president and chief executive officer, Dr. Barry has served as our executive vice president and chief operating officer since July 14, 2014. Dr. Barry has served as executive vice president and chief operating officer at Arsenal Medical Inc., a medical device company focused on local therapy, since September 2011. Dr. Barry also heads his own consulting firm, Convergent Biomedical Group LLC, advising medtech companies on product development, strategy, regulatory challenges and fund raising. Until June 2010, he was senior vice president, corporate technology development at Boston Scientific Corporation, where he was in charge of the corporate research and development and pre-clinical sciences functions. Dr. Barry joined Boston Scientific in 1992 and oversaw its efforts in the identification and development of drug, device and biological systems for applications with implantable and catheter-based delivery systems. He currently serves on a number of advisory boards including the College of Biomedical Engineering at Yale University, the College of Sciences at University of Massachusetts-Lowell and the Massachusetts Life Science Center and as a director of pSivida Corp (NASDAQ: PSDV). Dr. Barry received his Ph.D. in Biochemistry from the University of Massachusetts-Lowell and holds a B.A. degree in Chemistry from Saint Anselm College. Dr. Barry brings to the board over 20 years of experience in leadership roles in the medical device industry and significant medical technology experience, in particular with respect to interventional cardiology products, and as chief executive officer, Dr. Barry's position on the board ensures a unity of vision between the broader goals of our company and our day-to-day operations.

Craig Shore has served as our chief financial officer, secretary and treasurer since March 31, 2011 and as our chief administrative officer since May 3, 2013. In addition, from November 10, 2010 through March 31, 2011, Mr. Shore served as InspireMD Ltd.'s vice president of business development. From February 2008 through June 2009, Mr. Shore served as chief financial officer of World Group Capital Ltd. and Nepco Star Ltd., both publicly traded companies on the Tel Aviv Stock Exchange, based in Tel Aviv, Israel. From March 2006 until February 2008, Mr. Shore served as the chief financial officer of Cellnets Solutions Ltd., a provider of advanced cellular public telephony solutions for low to middle income populations of developing countries based in Azur, Israel. Mr. Shore has over 25 years of experience in financial management in the United States, Europe and Israel. His experience includes raising capital both in the private and public markets. Mr. Shore graduated with honors and received a B.Sc. in Finance from Pennsylvania State University and an M.B.A. from George Washington University.

Sol J. Barer, Ph.D. has served as a director since July 11, 2011 and has served as our chairman since November 16, 2011. Dr. Barer has over 25 years of experience with publicly traded biotechnology companies. In 1980, when Dr. Barer was with Celanese Research Company, he formed the biotechnology group that was subsequently spun out to form Celgene Corporation. Dr. Barer spent 18 years leading Celgene Corporation as president, chief operating officer and chief executive officer, culminating with his tenure as Celgene Corporation's executive chairman from June 2010 until January 2011 and chairman from May 2006 until June 2010 and from January 2011 until his retirement in June 2011. Dr. Barer is also a director of Cerecor, Inc., Edge Therapeutics, Inc., Medgenics, Inc., Centrexion Corporation, RestorGenex Corporation, ContraFect Corporation, Amicus Therapeutics, Inc. and Aegerion Pharmaceuticals, Inc. and serves as a senior advisor to a number of other biotechnology companies. Dr. Barer received a Ph.D. in organic chemistry from Rutgers University. Dr. Barer brings to the board significant scientific and executive leadership experience in the U.S. biotechnology industry and prior service on the board of directors of other publicly-held biopharmaceutical companies, as well as a unique perspective on the best methods of growth for a biotechnology company.

Isaac Blech has served as a director and our vice chairmen since January 22, 2016. Mr. Blech is a renowned biotechnology entrepreneur and investor, who, over the past 32 years, has founded and served on the board of companies which have produced major advances in a broad array of diseases, including the diagnosis of chlamydia, herpes, syphilis and HIV, and the treatment of cystic fibrosis, sexual dysfunction, multiple myeloma and brain cancer. The companies he established include Celgene Corporation (NASDAQ: CELG), ICOS Corporation, Nova Pharmaceutical Corporation, Pathogenesis Corporation and Genetics Systems Corporation. Mr. Blech's current roles include director and founder of Cerecor, Inc. (NASDAQ: CERC), a public company developing new treatments for central nervous system disorders, director of ContraFect Corporation (NASDAQ: CFRX), a public infectious disease company, director of Medgenics, Inc. (NYSE: MDGN), a public company creating new treatments for rare diseases, and vice chairman of Edge Therapeutics, Inc. (NASDAQ: EDGE), a public company that treats life-threatening neurological conditions. He is vice chairman of Centrexion Corporation, a private company which is developing new modalities of pain control, vice chairman of Regenovation, Inc., a private company developing new ways to regenerate human tissue, vice chairman of X4 Pharmaceuticals, a private cancer immunology company, vice chairman of Sapience Therapeutics, a private oncology company and vice chairman of Aridis Pharmaceuticals, a private company with a product to treat pneumonia. He also serves as vice chairman of WaveGuide Corporation, a private company developing the world's smallest NMR machine, vice chairman of root9B Technologies, Inc. (OTC: RTNB), a public cyber security company, and vice chairman of The SpendSmart Payments Company (OTC: SSPC), a public electronic rewards company.

Our board of directors believes that Mr. Blech's broad experiences as a founder, director and major investor in numerous biotechnology companies provide him with the qualifications and skills to serve as a director.

Michael Berman has served as our director since February 7, 2013. Mr. Berman is a medical device entrepreneur who works with high-potential development and early-stage commercial companies. From 2005 to 2012, when the company was sold to Boston Scientific, Mr. Berman was a co-founder and the chairman of BridgePoint Medical, Inc., which developed technology to treat coronary and peripheral vascular chronic total occlusions. Mr. Berman was also a member of the board of Lutonix, Inc. from 2007 until 2011, when the company was sold to C.R. Bard, Inc. Mr. Berman has served (i) since 2003 as co-founder and a director of Aetherworks II, a medical device incubator, (ii) since 2004 as a co-founder and director of Benechill, Inc., a company developing a therapeutic hypothermia system for the treatment of cardiac arrest, (iii) since 2011 as an advisor to, and since 2012 as a director of, Cardiosonic, Inc., a company developing a system for hypertension reduction via renal denervation, (iv) since 2005 as a director of PharmaCentra, LLC, which creates customizable marketing programs that help pharmaceutical companies communicate with physicians and patients, (v) since 2011 as a co-founder and director of Rebiotix Inc., a company developing an innovative treatment for C Diff colitis, (vi) since 2011 as a director of AngioSlide Ltd., a medical device company that has developed an embolic capture angioplasty device, (vii) since 2011 as a director of InterValve, Inc., a medical device company developing an aortic valvuloplasty balloon for treatment of calcific aortic stenosis, (viii) since 2013 as a Director of ClearCut Inc., a medical device company that has developed an MRI system for tumor margin assessment, (ix) since 2013 as a director of PulmOne Ltd., a medical device company developing an innovative Pulmonary Function Testing system, (x) since 2014 as a director of Mazor Robotics, Inc., a publicly held company that has developed and markets an innovative system for robotic surgery, (xi) since 2014 as a director of SoniVie, a medical device company and (xii) since 2014 as a venture partner at RiverVest Ventures. Mr. Berman was a member of the Data Sciences International, Inc. board from 2001 until 2012. Mr. Berman brings to the board his extensive executive and entrepreneurial experiences in the field of medical devices and interventional cardiology, which should assist in strengthening and advancing our strategic focus.

Campbell Rogers, M.D. has served as a director since September 3, 2013. Dr. Rogers has served as chief medical officer of HeartFlow, Inc., a cardiovascular diagnostics company, since March 2012. Prior to joining HeartFlow, Inc., he was the chief scientific officer and global head of research and development at Cordis Corporation, Johnson & Johnson, where he was responsible for leading investments and research in cardiovascular devices, from July 2006 to March 2012. Prior to that, he was associate professor of medicine at Harvard Medical School and the Harvard-M.I.T. Division of Health Sciences and Technology and director of the cardiac catheterization and experimental cardiovascular interventional laboratories at Brigham and Women’s Hospital. He served as principal investigator for numerous interventional cardiology device, diagnostic, and pharmacology trials, is the author of numerous journal articles, chapters, and books in the area of coronary artery and other cardiovascular diseases and was the recipient of research grant awards from the National Institute of Health and the American Heart Association. He received his A.B. from Harvard College and his M.D. from Harvard Medical School. Dr. Rogers’ qualifications to serve on the board include his significant experience in cardiovascular devices, as well as his familiarity with the operations of medical device companies.

Paul Stuka has served as a director since August 8, 2011. Mr. Stuka has served as the managing member of Osiris Partners, LLC, an investment fund, since 2000. Prior to forming Osiris Partners, LLC, Mr. Stuka, with 35 years of experience in the investment industry, was a managing director of Longwood Partners, managing small cap institutional accounts. In 1995, Mr. Stuka joined State Street Research and Management as manager of its Market Neutral and Mid Cap Growth Funds. From 1986 to 1994, Mr. Stuka served as the general partner of Stuka Associates, where he managed a U.S.-based investment partnership. Mr. Stuka began his career in 1980 as an analyst at Fidelity

Management and Research. As an analyst, Mr. Stuka followed a wide array of industries including healthcare, energy, transportation, and lodging and gaming. Early in his career he became the assistant portfolio manager for three Fidelity Funds, including the Select Healthcare Fund which was recognized as the top performing fund in the United States for the five-year period ending December 31, 1985. Mr. Stuka has served as a director of Caliber Imaging & Diagnostics, Inc. (formerly Lucid, Inc.) since June 2013. Mr. Stuka's qualifications to serve on the board include his significant strategic and business insight from his years of experience investing in the healthcare industry.

Mr. Shore and Dr. Barry are parties to certain agreements related to their service as executive officers and directors described under "Executive Compensation – Agreements with Executive Officers."

Family Relationships

We have no family relationships amongst our directors and executive officers.

Director Independence

The board of directors has determined that Drs. Barer and Rogers and Messrs. Stuka, Berman and Blech satisfy the requirement for independence set out in Section 803 of the NYSE MKT rules and that each of these directors has no material relationship with us (other than being a director and/or a stockholder). In making its independence determinations, the board of directors sought to identify and analyze all of the facts and circumstances relating to any relationship between a director, his immediate family or affiliates and our company and our affiliates and did not rely on categorical standards other than those contained in the NYSE MKT rule referenced above.

Board Committees

Our board of directors has established an audit committee, a nominating and corporate governance committee and a compensation committee, each of which has the composition and responsibilities described below.

Audit Committee. Our audit committee is currently comprised of Messrs. Berman and Stuka and Dr. Barer, each of whom our board has determined to be financially literate and qualify as an independent director under Section 803(B)(2) of the NYSE MKT rules. Mr. Stuka is the chairman of our audit committee and qualifies as a financial expert, as defined in Item 407(d)(5)(ii) of Regulation S-K. The audit committee's duties are to recommend to our board of directors the engagement of independent auditors to audit our financial statements and to review our accounting and auditing principles. The audit committee will review the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee is currently comprised of Messrs. Berman and Stuka and Dr. Barer, each of whom qualify as an independent director under Section 803(A) of the NYSE MKT rules. Mr. Berman is the chairman of our nominating and corporate governance committee. The nominating and corporate governance committee identifies and recommends to our board of directors individuals qualified to be director nominees. In addition, the nominating and corporate governance committee recommends to our board of directors the members and chairman of each board committee who will periodically review and assess our code of business conduct and ethics and our corporate governance guidelines. The nominating and corporate governance committee also makes recommendations for changes to our code of business conduct and ethics and our corporate governance guidelines to our board of directors, reviews any other matters related to our corporate governance and oversees the evaluation of our board of directors and our management.

Compensation Committee. Our compensation committee is currently comprised of Mr. Stuka and Dr. Barer, each of whom qualify as an independent director under Sections 803(A) and 805(c)(1) of the NYSE MKT rules. Mr. Stuka is the chairman of our compensation committee. The compensation committee reviews and approves our salary and benefits policies, including compensation of executive officers and directors. The compensation committee also administers our stock option plans and recommends and approves grants of stock options under such plans.

Code of Ethics

We have adopted a code of ethics and business conduct that applies to our officers, directors and employees, including our principal executive officer, principal financial officer and principal accounting officer, which is posted on our website at *www.inspire-md.com*. We intend to disclose future amendments to certain provisions of the code of ethics, or waivers of such provisions granted to executive officers and directors, on this website within four business days following the date of such amendment or waiver.

EXECUTIVE COMPENSATION

Summary Compensation Table

The table below sets forth the compensation earned by our named executive officers for the twelve month period ended December 31, 2015 and 2014.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Restricted Stock Awards ($)(1)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
Alan Milinazzo	2015	225,000 (3)	45,833 (4)	428,826 (3)	131,221	20,462 (5)	851,342
President and Chief	2014	450,000	69,105 (6)	553,916	736,482	20,460 (5)	1,829,963
Executive Officer(2)							
Craig Shore	2015	224,481 (7)	17,349 (4)(7)	33,750	33,479	74,318 (7)(8)	383,377 (7)
Chief Financial Officer,	2014	214,525	22,331 (6)	327,013	322,817	59,276 (8)	945,962
Secretary and Treasurer							
James Barry, Ph.D.	2015	300,333 (9)	37,500 (4)	127,167 (10)	16,740	19,936 (11)	532,093
Executive Vice President	2014	183,812 (12)	25,914 (6)	391,500	802,545 (13)	123,748 (14)	1,527,519
and Chief Operating Officer							

(1) The amounts reflect the dollar amounts recognized for financial statement reporting purposes with respect to the twelve month periods ended December 31, 2015 and 2014 in accordance with FASB ASC Topic 718. Fair value is based on the Black-Scholes option pricing model using the fair value of the underlying shares at the measurement date. For additional discussion of the valuation assumptions used in determining stock-based compensation and the grant date fair value for stock options, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Share-based compensation" and Note 2 — "Significant Accountin Policies" and Note 10 — "Equity" of the Notes to the Consolidated Financial Statements for the Twelve Months Ended December 31, 2015 included herein.

(2) Mr. Milinazzo served as our president, chief executive officer and director until his resignation from such positions on June 6, 2016. Mr. Milinazzo served as our director during the twelve months ended December 31, 2015 and 2014, but did not receive any additional compensation for his services as director.

(3) Pursuant to amendments to employment agreement with Mr. Milinazzo, dated January 5, 2016, and June 29, 2015, Mr. Milinazzo received 50% of his base salary for January 2015 through December 31, 2015, or $225,000, in 31,250 shares of restricted common stock, which was issued on January 26, 2015, and 63,825 shares of restricted

common stock, which was issued on December 31, 2015. See “— Agreements with Executive Officers — Alan Milinazzo.”

(4) Bonuses for the 2015 calendar year were approved by the Compensation Committee in July 2015.

(5) Mr. Milinazzo’s other compensation consisted solely of benefits related to health insurance.

(6) Bonuses for the 2014 calendar year were approved by the Compensation Committee in January 2015.

(7) The change in salary from 2014 to 2015 is exclusively due to the difference in the exchange rate for the applicable period. Compensation amounts received in non-U.S. currency have been converted into U.S. dollars using the average exchange rate for the applicable period, except for bonus amounts which have been converted into U.S. dollars using 3.769 NIS per dollar and 3.889 NIS per dollar, which were the exchange rates as of June 30, 2015 and December 31, 2014. The average exchange rate for the twelve month period ended December 31, 2015 and 2014 were 3.884 NIS per dollar and 3.58 NIS per dollar, respectively.

(8) Mr. Shore’s other compensation consisted solely of benefits in the twelve months ended December 31, 2015 and 2014. In each of the periods reported, Mr. Shore’s benefits included our contributions to his severance, pension, vocational studies and disability funds, an annual recreation payment, a company car or car allowance and cell phone, and a daily food allowance.

(9) Includes $26,583 of salary forgone at the election of Dr. Barry, representing 50% of his salary from March 10, 2015 through April 30, 2015 in exchange for 3,692 shares of restricted common stock. See “— Agreements with Executive Officers — James Barry.”

(10) Includes 4,757 shares of restricted common stock we issued to Dr. Barry in lieu of 50% of his base salary pursuant to amendments to employment agreement with Dr. Barry, dated January 5, 2016, and dated February 22, 2015. See “— Agreements with Executive Officers — James Barry.”

(11) Dr. Barry’s other compensation consisted solely of benefits related to health insurance.

(12) Dr. Barry’s salary compensation includes $15,000 of fees earned as a director during the twelve months ended December 31, 2014.

(13) Includes the fair value of options granted to Dr. Barry as a director of $94,909 during the twelve months ended December 31, 2014.

(14) Dr. Barry’s other compensation in the twelve months ended December 31, 2014 consisted of $115,000 of consulting fees and $8,748 of benefits related to health insurance

Agreements with Executive Officers

Alan Milinazzo

On January 3, 2013, we entered into an employment agreement with Alan Milinazzo to serve as our president, chief executive officer and a director, which was first amended on April 24, 2013, and further amended on January 5, 2015, June 29, 2015, and January 21, 2016. On June 6, 2016, Mr. Milinazzo resigned from his positions as our president, chief executive officer and director, and his employment agreement, as amended, was terminated.

Under the employment agreement, as amended, Mr. Milinazzo was entitled to an annual base salary of at least $450,000. Such amount may be reduced only as part of an overall cost reduction program that affects all of our senior executives and does not disproportionately affect Mr. Milinazzo, so long as such reductions do not reduce the base salary to a rate that is less than 90% of the amount set forth above (or 90% of the amount to which it has been increased). The base salary was to be reviewed annually by the board for increase as part of its annual compensation review. Mr. Milinazzo was also eligible to receive an annual bonus of at least $275,000 upon the achievement of reasonable target objectives and performance goals, to be determined by the board of directors in consultation with Mr. Milinazzo on or before the end of the first quarter of the fiscal year to which the bonus relates and, in the event actual performance exceeds the goals, the board may, in its sole discretion, pay Mr. Milinazzo bonus compensation of more than $275,000. The annual bonus amount was to be less than $275,000 if the target objectives and performance goals are not met. In addition, Mr. Milinazzo was eligible to receive such additional bonus or incentive compensation as the board may establish from time to time in its sole discretion.

On January 5, 2015, we amended Mr. Milinazzo’s employment agreement to provide that, for a limited period of time to be mutually agreed to by us and Mr. Milinazzo, Mr. Milinazzo would receive 50% of his base salary in cash payments, with the remaining 50% to be paid in an equivalent amount of shares of restricted common stock, payable and granted in equal installments in accordance with our normal payroll practices. These shares of restricted stock were to vest immediately and be valued as of the closing price of our common stock on the date of grant. Notwithstanding the foregoing agreement, at Mr. Milinazzo’s request, no shares of restricted common stock were granted to Mr. Milinazzo pursuant to this amendment. Rather, we and Mr. Milinazzo determined that it would be in our mutual best interest to make a single grant of shares of restricted common stock to Mr. Milinazzo having a fair market value, as of the date of grant, equal to 50% of his annual base salary, with such shares vesting on the first anniversary of the date of grant, as opposed to making bi-weekly grants of restricted common stock to Mr. Milinazzo. As such, on January 26, 2015, we issued 31,250 shares of restricted common stock valued at $7.20 per share, representing the fair market value of our common stock as of the market close on January 26, 2015, in lieu of 50% of his base salary for his employment in 2015, to vest on January 26, 2016.

On June 29, 2015, we further amended Mr. Milinazzo's employment agreement to memorialize the payroll adjustment that was made to Mr. Milinazzo's manner of salary payment on January 26, 2015, and to provide certain additional changes. Specifically, this amendment provided that, until we raise an aggregate of $5 million from investors, Mr. Milinazzo would receive (A) with respect to his employment in 2015, 50% of his base salary in cash payments, with the remaining 50% having been paid to Mr. Milinazzo on January 26, 2015, through the issuance of 31,250 shares of restricted common stock as discussed above, which would be subsequently adjusted based upon the volume-weighted average price of our common stock during the calendar year ended December 31, 2015 (or during the period from January 2, 2015 through his termination date if Mr. Milinazzo's employment is terminated upon his death or disability, by Mr. Milinazzo for good reason, or by us without cause prior to December 31, 2015) to represent the equivalent of 50% of Mr. Milinazzo's base salary in 2015. On December 31, 2015, we issued an additional 63,825 shares of restricted common stock as an adjustment pursuant to such amendment, as the value of our common stock declined following the grant to Mr. Milinazzo on January 26, 2015.

On January 21, 2016, we further amended Mr. Milinazzo's employment agreement to provide that, during the remaining term of his employment, Mr. Milinazzo would receive (A) 50% of his base salary in cash payments, for all days that Mr. Milinazzo works during the remaining term of his employment, at the monthly rate of $18,750, payable in accordance with our regular payroll practices, and (B) a lump-sum payment equivalent to 50% of Mr. Milinazzo's base salary through June 30, 2016, at the monthly rate of $18,750, payable within 20 business days from the earlier of (x) us raising an aggregate of $5 million from investors, or (y) June 30, 2016.

In accordance with Mr. Milinazzo's employment agreement, on January 3, 2013, we granted Mr. Milinazzo a nonqualified stock option to purchase 52,593 shares of our common stock, made pursuant to a nonqualified stock option agreement, an incentive stock option to purchase 7,408 shares of our common stock, made pursuant to an incentive stock option agreement, and 40,000 shares of restricted stock, which are subject to forfeiture until the vesting of such shares, made pursuant to a restricted stock award agreement. The options have an exercise price of $40.50, which was the fair market value of our common stock on the date of grant. The options are subject to a three-year vesting period subject to Mr. Milinazzo's continued service with us, with one-thirty-sixth (1/36th) of such awards vesting each month. The shares of restricted stock initially vested monthly over thirty-six months, with 1/36 vesting on February 3, 2013, March 3, 2013 and April 3, 2013. The grant was then amended to vest annually over three years, with 9/36 vesting on January 3, 2014, and one-third vesting on January 3, 2015 and January 3, 2016. On or before December 31 of each calendar year, Mr. Milinazzo will be eligible to receive an additional grant of equity awards equal, in the aggregate, to up to 0.5% of actual outstanding shares of our common stock on the date of grant, provided that the actual amount of the grant will be based on his achievement of certain performance objectives as established by the board, in its reasonable discretion, for each such calendar year. Each additional grant will, with respect to any awards that are options, have an exercise price equal to the fair market value of our common stock, and will be subject to a three-year vesting period subject to Mr. Milinazzo's continued service with us, with one-third of each additional grant vesting equally on the first, second, and third anniversary of the date of grant for such awards. In connection with the equity compensation related to 2013 achievements, on January 29, 2014, Mr. Milinazzo was granted stock options to purchase 8,633 shares of common stock and 8,633 restricted shares. In connection with the equity compensation related to 2014 achievements, on January 26, 2015, Mr. Milinazzo was granted stock options to purchase 5,300 shares of common stock and 5,300 restricted shares.

Mr. Milinazzo's employment agreement, as amended, also contains certain noncompetition, no solicitation, confidentiality, and assignment of inventions requirements for Mr. Milinazzo.

Pursuant to Mr. Milinazzo's employment agreement, as amended, if Mr. Milinazzo's employment had been terminated upon his death or disability, by Mr. Milinazzo for good reason (as such term is defined in Mr. Milinazzo's employment agreement, as amended), or by us without cause (as such term is defined in Mr. Milinazzo's employment agreement, as amended), Mr. Milinazzo was entitled to receive, in addition to other unpaid amounts owed to him (e.g., for base salary and accrued vacation): (i) any unpaid incentive compensation (as such term is defined in the employment agreement, as amended) actually earned or owing as of the termination date; (ii) vesting of 100% of all unvested stock options, restricted stock, stock appreciation rights or similar stock based rights granted to Mr. Milinazzo, and lapse of any forfeiture included in such restricted or other stock grants; (iii) an extension of the exercise period of any outstanding stock options or stock appreciation rights until the earlier of (a) two (2) years from the date of termination, or (b) the latest date that each stock option or stock appreciation right would otherwise expire by its original terms; and (v) to the fullest extent permitted by our then-current benefit plans, continuation of benefits coverage for the lesser of 12 months after termination or until Mr. Milinazzo obtains coverage from a new employer. If, during the term of the employment agreement, as amended, we terminate Mr. Milinazzo's employment for cause or Mr. Milinazzo voluntarily terminates his employment, Mr. Milinazzo would only be entitled to unpaid amounts owed to him and whatever rights, if any, are available to him pursuant to our stock-based compensation plans or any award documents related to any stock-based compensation.

Mr. Milinazzo had no specific right to terminate the employment agreement or right to any severance payments or other benefits solely as a result of a change in control. However, if within 24 months following a change in control, (a) Mr. Milinazzo terminated his employment for good reason, or (b) we terminated his employment without cause, the lump sum severance payment to which he would have been entitled to would have been equal to 200% of his base salary, and all stock options, restricted stock, stock appreciation rights or similar stock-based rights granted to him would have vested in full and be immediately exercisable and any risk of forfeiture included in restricted or other stock grants previously made to him would have immediately lapsed.

Pursuant to an option cancellation and release agreement, dated January 26, 2016, between us and Mr. Milinazzo, Mr. Milinazzo agreed to cancel options to purchase 160,488 shares of our common stock at exercise prices ranging from $7.20 to $40.50 previously granted to him. In exchange for the cancellation of Mr. Milinazzo's options, we granted to Mr. Milinazzo, pursuant to the InspireMD, Inc. 2013 Long-Term Incentive Plan and the 2013 Employee Stock Incentive Plan, which is a sub-plan to the InspireMD, Inc. 2013 Long-Term Incentive Plan, one share of our common stock as of January 26, 2016.

Craig Shore

We have been a party to an employment agreement with Craig Shore since November 28, 2010. Pursuant to the employment agreement, Mr. Shore was initially entitled to a monthly gross salary of $8,750, which amount had increased to $10,620 by 2012. In addition, Mr. Shore's annual base salary was increased to $175,000 on April 22, 2013, retroactive to January 1, 2013. On May 5, 2014, we entered into an amended and restated employment agreement with Mr. Shore. The employment agreement, as amended, has an initial term that ends on April 20, 2017 and will automatically renew for additional one-year periods on April 21, 2017 and on each April 21st thereafter unless either party gives the other party written notice of its election not to extend such employment at least six months prior to the next April 21st renewal date. If a change in control occurs when less than two full years remain in the initial term or during any renewal term, the employment agreement will automatically be extended for two years from the change in control date and will terminate on the second anniversary of the change in control date. Under the terms of the employment agreement, Mr. Shore is entitled to an annual base salary of at least $220,000, retroactive to January 1, 2014. Such amount may be reduced only as part of an overall cost reduction program that affects all of our senior executives and does not disproportionately affect Mr. Shore, so long as such reduction does not reduce the base salary to a rate that is less than 90% of the amount set forth above (or 90% of the amount to which it has been increased). The base salary will be reviewed annually by our chief executive officer for increase (but not decrease, except as permitted as part of an overall cost reduction program) as part of our annual compensation review. Mr. Shore is also eligible to receive an annual bonus in an amount equal to 45% of his then-annual salary upon the achievement of reasonable target objectives and performance goals, to be determined by the board of directors in consultation with Mr. Shore and based on the percentages set forth in his employment agreement. On January 5, 2015, we amended Mr. Shore's amended and restated employment agreement to remove from the amended and restated employment agreement the provision disallowing payment of annual bonus compensation if Mr. Shore achieved less than 70% of the target objectives and performance goals determined by our board of directors in consultation with him. Pursuant to such amendment, Mr. Shore is eligible to receive the percentage of his annual bonus corresponding to the percentage of his achievement of such target objectives and performance goals. The annual bonus will be reviewed annually by our chief executive officer for increase in the amount of the percentage of his then-base salary (but not decrease), as well as the criteria and corresponding percentages for the goals, as part of our annual compensation review. In addition, Mr. Shore is eligible to receive such additional bonus or incentive compensation as the board may establish from time to time in its sole discretion. Mr. Shore will also be considered for grants of equity awards each year as part of the board's annual compensation review, which will be made at the sole discretion of the board of directors. Each grant will, with respect to any awards that are options, have an exercise price equal to the fair market value of our common stock as of the date of grant, and will be subject to a three-year vesting period subject to Mr. Shore's continued service with us, with one-third of each additional grant vesting equally on the first, second, and third anniversary of the date of grant for such awards.

If during the term of the employment agreement, Mr. Shore's employment is terminated upon his death or disability or by us without cause (as such term is defined in Mr. Shore's employment agreement), Mr. Shore will be entitled to receive, in addition to any amounts he is entitled to receive under the manager's insurance policy: (i) any unpaid base salary and accrued unpaid vacation or earned incentive compensation and the pro rata amount of any bonus plan incentive compensation for the fiscal year of such termination (based on the number of business days he was actually employed by us during the fiscal year of such termination and based on the percentage of the goals that he actually achieved under the bonus plan) that he would have received had his employment not been terminated; (ii) a one-time lump sum severance payment equal to 100% of his base salary, provided that he executes a release relating to employment matters and the circumstances surrounding his termination in favor of us, our subsidiaries and our officers, directors and related parties and agents, in a form reasonably acceptable to us at the time of such termination; (iii) vesting of 50% of all unvested stock options granted to him; (iv) an extension of the exercise period of all vested stock options granted to Mr. Shore until the earlier of (a) two years from the date of termination or (b) the latest date that each stock option would otherwise expire by its original terms; (v) to the fullest extent permitted by our then-current benefit plans, continuation of health, dental, vision and life insurance coverage for the lesser of 12 months after termination or until Mr. Shore obtains coverage from a new employer; and (vi) reimbursement of up to $30,000 for executive outplacement services, subject to certain restrictions. The severance payment described in (ii) of the foregoing sentence upon Mr. Shore's death or disability will be reduced by any payments received by Mr. Shore pursuant to any of our employee welfare benefit plans providing for payments in the event of death or disability. If, during or after the term of his employment agreement, Mr. Shore's employment is terminated by us for cause or by Mr. Shore voluntarily, Mr. Shore will only be entitled to unpaid amounts owed to him (e.g., base salary, accrued vacation and earned incentive compensation through the date of such termination) and whatever rights, if any, are available to him pursuant to our stock-based compensation plan or any award documents related to any stock-based compensation.

Mr. Shore has no specific right to terminate the employment agreement or right to any severance payments or other benefits solely as a result of a change in control. However, if within 24 months following a change in control, (a) Mr. Shore terminates his employment for good reason, or (b) we terminate Mr. Shore’s employment without cause, he is entitled to receive the full lump sum severance payment equal to 100% of his base salary and all stock options, stock appreciation rights or similar stock-based rights granted to him will vest in full and be immediately exercisable and any risk of forfeiture included in restricted or other stock grants previously made to him will immediately lapse. Furthermore, pursuant to terms contained in Mr. Shore’s stock option and restricted stock award agreements, in the event of a change of control of our company, the stock options and restricted stock granted to Mr. Shore that were unvested will vest immediately upon such change of control, in the case of stock options, if such stock options are not assumed or substituted by the surviving company. We have also agreed orally that, upon Mr. Shore’s termination of service as a result of death, disability, resignation for “good reason” or termination by us without “cause,” Mr. Shore will also be entitled to receive: (a) 50% vesting of all unvested stock options, restricted stock, restricted stock units, stock appreciation rights or similar stock based rights outstanding at the time of termination of service; and (b) the right to exercise any outstanding stock options or stock appreciation rights for a period equal to the lesser of (x) two years from the date of termination of service, or (y) the period remaining until the original expiration date of any such outstanding stock options or stock appreciation rights.

If we terminate Mr. Shore’s employment without cause, Mr. Shore will be entitled, under Israeli law, to severance payments equal to his last month’s salary multiplied by the number of years Mr. Shore has been employed with us. In order to finance this obligation, we make monthly contributions equal to 8.33% of Mr. Shore’s salary to a severance payment fund. The total amount accumulated in Mr. Shore’s severance payment fund as of December 31, 2014 was $51,615, as adjusted for conversion from New Israeli Shekels to U.S. Dollars. However, if Mr. Shore’s employment is terminated without cause, on account of a disability or upon his death, as of December 31, 2014, Mr. Shore would have been entitled to receive $67,564 in severance under Israeli law, thereby requiring us to pay Mr. Shore $15,949, in addition to releasing the $51,615 in Mr. Shore’s severance payment fund. On the other hand, pursuant to his employment agreement, Mr. Shore is entitled to the total amount contributed to and accumulated in his severance payment fund in the event of the termination of his employment as a result of his voluntary resignation. In addition, Mr. Shore would be entitled to receive his full severance payment under Israeli law, including the total amount contributed to and accumulated in his severance payment fund, if he retires from our company at or after age 67.

We are entitled to terminate Mr. Shore’s employment immediately at any time for “cause” (as such term is defined in the agreement and the Israeli Severance Payment Act 1963), upon which, after meeting certain requirements under the applicable law and recent Israeli Labor court requirements, we believe we will have no further obligation to compensate Mr. Shore.

Also, upon termination of Mr. Shore’s employment for any reason, we will compensate him for all unused vacation days accrued.

The employment agreement also contains certain standard noncompetition, no solicitation, confidentiality, and assignment of inventions requirements for Mr. Shore.

Mr. Shore is also entitled to participate in or receive benefits under our social insurance and benefits plans, including but not limited to our manager’s insurance policy and education fund, which are customary benefits provided to executive employees in Israel. A management insurance policy is a combination of severance savings (in accordance with Israeli law), defined contribution tax-qualified pension savings and disability pension payments. An education fund is a savings fund of pre-tax contributions to be used after a specified period of time for advanced educational training and other permitted purposes, as set forth in the by-laws of the education fund. We will make periodic contributions to these insurance and social benefits plans based on certain percentages of Mr. Shore’s base salary, including (i) 7.5% to the education fund and (ii) 15.83% to the manager’s insurance policy, of which 8.33% will be allocated to severance pay, 5% to pension fund payments and 2.5% to disability pension payments. Upon the termination of Mr. Shore’s employment for any reason other than for cause, Mr. Shore will be entitled to receive the total amount contributed to and accumulated in his manager insurance policy fund.

Pursuant to an option cancellation and release agreement, dated January 26, 2016, between us and Mr. Shore, Mr. Shore agreed to cancel options to purchase 44,350 shares of our common stock at exercise prices ranging from $7.20 to $49.29 previously granted to him. In exchange for the cancellation of Mr. Shore’s options, we granted to Mr. Shore, pursuant to the InspireMD, Inc. 2013 Long-Term Incentive Plan and the 2013 Employee Stock Incentive Plan, which is a sub-plan to the InspireMD, Inc. 2013 Long-Term Incentive Plan, one share of our common stock as of January 26, 2016.

James Barry

On July 14, 2014, we entered into an employment agreement with James Barry to serve as our executive vice president and chief operating officer, which was first amended on January 5, 2015, and further amended on February 22, 2015 and on March 28, 2016, and on June 6, 2016, our board of directors appointed Dr. Barry as our president and chief executive officer, and further amended the employment agreement. Dr. Barry was previously a director and continues his role as a director. The term of Dr. Barry's employment will continue until May 31, 2017, with Dr. Barry resigning as a member of the board of directors at the end of such term if requested by us, and in the event that the term is not extended beyond May 31, 2017 by mutual agreement of the parties and we do not offer Dr. Barry a position as chief executive officer and/or chief operating officer on the same or more favorable terms with a base salary that is at least 10% greater than his current base salary, Dr. Barry's termination will be deemed a termination without cause.

Under the employment agreement, as amended, Dr. Barry is entitled to an annual base salary of at least $365,000. Such amount may be reduced only as part of an overall cost reduction program that affects all of our senior executives and does not disproportionately affect Dr. Barry, so long as such reductions do not reduce the base salary to a rate that is less than 90% of the amount set forth above (or 90% of the amount to which it has been increased). The base salary will be reviewed annually by the board for increase as part of its annual compensation review.

Prior to his appointment as our president and chief executive officer, Dr. Barry was also eligible to receive an annual bonus of $225,000 upon the achievement of reasonable target objectives and performance goals, to be determined by the board of directors in consultation with Dr. Barry on or before the end of the first quarter of the fiscal year to which the bonus relates and, in the event actual performance exceeds the goals, the board may, in its sole discretion, pay Dr. Barry bonus compensation of more than $225,000. Pursuant to the amendment to Dr. Barry's employment agreement upon his appointment as our president and chief executive director, effective as of June 6, 2016, Dr. Barry is eligible to receive annual bonus compensation in an amount equal to 100% of his base salary upon the achievement of reasonable target objectives and performance goals as may be determined by the board of directors in consultation with Dr. Barry and (ii) on the first to occur of (a) the first payroll period that is on or after the 20th business day following closing of a transaction with investors where we raise an aggregate of $5 million or (b) March 15, 2017, Dr. Barry will receive a lump-sum retention bonus in an amount equal to $106,458, subject to Dr. Barry's continued employment through such date. In addition, Dr. Barry is eligible to receive such additional bonus or incentive compensation as the board may establish from time to time in its sole discretion.

On January 5, 2015, we amended Dr. Barry's employment agreement to provide that, for a limited period of time to be mutually agreed to by us and Dr. Barry, Dr. Barry will receive 50% of his base salary in cash payments, with the remaining 50% to be paid in an equivalent amount of shares of restricted common stock, payable and granted in equal installments in accordance with our normal payroll practices. These shares of restricted stock were to vest immediately and be valued as of the closing price of our common stock on the date of grant. Notwithstanding the foregoing agreement, at Dr. Barry's request, no shares of restricted common stock were granted to Dr. Barry pursuant to this amendment. Rather, we and Dr. Barry determined that it would be in our mutual best interest to make a single grant of shares of restricted common stock to Dr. Barry having a fair market value, as of the date of grant, equal to 50% of his annual base salary, with such shares vesting on the first anniversary of the date of grant, as opposed to making bi-weekly grants of restricted common stock to Dr. Barry. As such, , on January 26, 2015, we issued 19,011 shares of restricted common stock valued at $7.20 per share, representing the fair market value of our common stock as of the market close on January 26, 2015, in lieu of 50% of his base salary for his employment in 2015, to vest on January 26, 2016.

On February 22, 2015, we further amended Dr. Barry's employment agreement to memorialize the payroll adjustment that was made to Dr. Barry's manner of salary payment on January 26, 2015 and to provide certain additional changes. Specifically, this amendment provided that, until the earlier of (1) September 30, 2015 and (2) we raise an aggregate of $5 million from investors, Dr. Barry shall receive 50% of his base salary in cash payments, with the remaining 50% having been paid to Dr. Barry on January 26, 2015, through the issuance of 19,011 shares of restricted stock as discussed above. Notwithstanding the foregoing, with Dr. Barry's consent, Dr. Barry continued to receive only 50% of his base salary in cash from March 9, 2015, the date of the closing of our offering from which we received gross proceeds of approximately $13.7 million, until April 30, 2015. As we commenced full cash payment of Dr. Barry's salary on April 30, 2015, Dr. Barry forfeited 10,562 shares of restricted stock on May 1, 2015, which represented the shares of restricted common stock previously granted to Dr. Barry to cover 50% of his base salary from May 1, 2015 through December 31, 2015. The remaining such shares of restricted stock issued to Dr. Barry on January 26, 2015 in lieu of cash base salary fully vested on January 26, 2016.

In November 2015, due to our efforts to preserve cash, Dr. Barry agreed to temporarily forego, in exchange for a corresponding reduced time commitment to us, 50% of his base salary. We formalized such voluntarily agreement by entering into an amendment to Dr. Barry's employment agreement, dated March 28, 2016. The foregoing amendment to Dr. Barry's employment agreement provides that, until the earlier of (1) the end of the term of his employment, and (2) we raise an aggregate of $5 million from investors, Dr. Barry shall receive 50% of his base salary and shall be eligible for 50% of any annual bonus or other incentive compensation, during which period Dr. Barry shall devote 50% less business time than he ordinarily has devoted or would devote to us for the performance of his services under his employment agreement.

On June 6, 2016, in connection with Dr. Barry's appointment as our president and chief executive officer, we further amended Dr. Barry's employment agreement to provide that, for the period beginning on June 1, 2016 and ending on the earlier of (i) the closing of a transaction with investors where we raise an aggregate of $5 million and (ii) March 15, 2017, Dr. Barry will receive 50% of his base salary in cash payments, payable in accordance with our regular payroll practices, with the remaining 50% of his base salary paid in a lump-sum payment on the first to occur of (a) the first payroll period that is on or after the 20th business day following such transaction or (b) March 15, 2017. In addition, within 20 business days of the closing of the transaction with investors where we raise an aggregate of $5 million, Dr. Barry will be granted, subject to the board's approval and Dr. Barry's continued employment through the applicable grant date, (i) a nonqualified stock option relating to the number of shares of our common stock equal to 2% of outstanding common stock on the date of the closing of such transaction and (ii) an award of a number of restricted shares of our common stock equal to 2% of outstanding common stock on the date of the closing of such transaction, in each case, subject to the terms and conditions of the InspireMD, Inc. 2013 Long-Term Incentive Plan and a nonqualified stock option agreement and a restricted stock award agreement to be entered into by us and Dr. Barry.

Pursuant to Dr. Barry's employment agreement, if Dr. Barry's employment is terminated upon his death or disability, by Dr. Barry for good reason (as such term is defined in Dr. Barry's employment agreement), or by us without cause (as such term is defined in Dr. Barry's employment agreement), Dr. Barry will be entitled to receive, in addition to other unpaid amounts owed to him (e.g., for base salary and accrued vacation): (i) the pro rata amount of any bonus for the fiscal year of such termination (assuming full achievement of all applicable goals under the bonus plan) that he would have received had his employment not been terminated; (ii) a one-time lump sum severance payment equal to 150% of his base salary, provided that he executes a release relating to employment matters and the circumstances surrounding his termination in favor of us, our subsidiaries and our officers, directors and related parties and agents, in a form reasonably acceptable to us at the time of such termination; (iii) vesting of 50% of all unvested stock options, restricted stock, stock appreciation rights or similar stock based rights granted to Dr. Barry, and lapse of any forfeiture included in such restricted or other stock grants; (iv) an extension of the term of any outstanding stock options or stock appreciation rights until the earlier of (a) eighteen months from the date of termination, or (b) the latest date that each stock option or stock appreciation right would otherwise expire by its original terms; (v) to the fullest extent permitted by our then-current benefit plans, continuation of health, dental, vision and life insurance coverage for the lesser of 18 months after termination or until Dr. Barry obtains coverage from a new employer; and (vi) a cash payment of $25,000, which Dr. Barry may use for executive outplacement services or an education program. The payments described above will be reduced by any payments received by Dr. Barry pursuant to any of our employee welfare benefit plans providing for payments in the event of death or disability. If Dr. Barry continues to be employed by us after the term of his employment agreement, unless otherwise agreed by the parties in writing, and Dr. Barry's employment is terminated upon his death or disability, by Dr. Barry for good reason, or by us without cause, Dr. Barry will be entitled to receive, in addition to other unpaid amounts owed to him, the payments set forth in (i), (ii) and (iv) above. If, during the term of his employment agreement, we terminate Dr. Barry's employment for cause, Dr. Barry will only be entitled to unpaid amounts owed to him and whatever rights, if any, are available to him pursuant to our stock-based compensation plans or any award documents related to any stock-based compensation.

Dr. Barry has no specific right to terminate the employment agreement or right to any severance payments or other benefits solely as a result of a change in control. However, if within 24 months following a change in control, (a) Dr. Barry terminates his employment for good reason, or (b) we terminate his employment without cause, the lump sum severance payment to which he is entitled will be increased from 150% of his base salary to 250% of his base salary and all stock options, restricted stock units, stock appreciation rights or similar stock-based rights granted to him will vest in full and be immediately exercisable and any risk of forfeiture included in restricted or other stock grants previously made to him will immediately lapse.

Dr. Barry's employment agreement also contains certain noncompetition, no solicitation, confidentiality, and assignment of inventions requirements for Dr. Barry.

Pursuant to an option cancellation and release agreement, dated January 26, 2016, between us and Dr. Barry, Dr. Barry agreed to cancel options to purchase 67,677 shares of our common stock at exercise prices ranging from $7.20 to $78.00 previously granted to him. In exchange for the cancellation of Dr. Barry's options, we granted to Dr. Barry, pursuant to the InspireMD, Inc. 2013 Long-Term Incentive Plan and the 2013 Employee Stock Incentive Plan, which is a sub-plan to the InspireMD, Inc. 2013 Long-Term Incentive Plan, one share of our common stock as of January 26, 2016.

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2015 Grants of Plan-Based Awards

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	**All Other Option Awards: Number of Securities Underlying Options (#)[(2)]**	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Alan Milinazzo[(1)]	01/26/2015	15,209			109,500
President and Chief Executive Officer	01/26/2015	5,300			38,159
	01/26/2015	31,250			225,000
	01/26/2015		5,300	7.2	22,599
	01/26/2015		25,474	7.2	108,622
	12/31/2015	63,825			56,166
Craig Shore	01/26/2015	4,688			33,750
Chief Financial Officer, Secretary and Treasurer	01/26/2015		7,852	7.2	33,479
James Barry, Ph.D.	01/26/2015		3,926	7.2	16,740
Executive Vice President and Chief Operating Officer	01/26/2015	10,793			77,708

(1) Mr. Milinazzo served as our president, chief executive officer and director until his resignation from such positions on June 6, 2016.

(2) On January 26, 2016, we entered into an option cancellation and release agreement with each of the named executive officers included in the table above, pursuant to which the parties agreed to cancel options which their exercise prices is ranging from $7.20 to $78.00 previously granted to each of the named executive officers included in the table above.

Outstanding Equity Awards at December 31, 2015

The following table shows information concerning unexercised options and unvested restricted shares outstanding as of December 31, 2015 for each of our named executive officers.

Name	Option Awards Number of securities underlying unexercised options (#) exercisable	**Number of securities underlying unexercised options (#) unexercisable**[15]		Option exercise price ($)	Option expiration date	Stock Awards Number of shares of stock that have not vested (#)		Market value of shares of stock that have not vested ($)
Alan Milinazzo	58,334	1,667	(1)	40.5	1/3/2023			
						13,330	(2)	11,730
	19,830	9,915	(3)	20.5	4/23/2023			
						5,995	(4)	5,276
	2,878	5,755	(5)	31.0	1/27/2024			
						5,755	(6)	5.064
	10,445	20,890	(7)	29.7	1/29/2024			
						6,426	(8)	5,655
	—	30,774	(9)	7.2	1/25/2025			
						15,209	(10)	13,384
						5,300	(10)	4,664
						31,250	(11)	27,500

	Option Awards					Stock Awards		
Name	Number of securities underlying unexercised options (#) exercisable	**Number of securities underlying unexercised options (#) unexercisable[15]**		Option exercise price ($)	Option expiration date	Number of shares of stock that have not vested (#)		Market value of shares of stock that have not vested($)
Craig Shore	9,131	—		49.285	2/27/2021			
	7,500	—		32.0	5/24/2022			
	1,667	833	(13)	29.5	5/7/2023			
	2,567	5,133	(5)	31.0	1/27/2024			
						5,133	(6)	4,517
	3,222	6,445	(7)	29.7	1/29/2024			
						1,982	(8)	1,744
	—	7,852	(9)	7.2	1/25/2025			
						4,688	(10)	4,125
James Barry	2,500	—		78.0	1/30/2022			
	1,250	—		31.6	6/17/2022			
	6,667	3,333	(12)	27.5	5/7/2023			
	1,667	3,333	(5)	31.0	1/27/2024			
						10,000	(13)	8,800
	15,000	30,001	(14)	26.1	7/11/2024			
	—	3,926	(9)	7.2	1/25/2025			
						2,344	(10)	2,063
						8,449	(11)	7,435

(1) These options vested on January 3, 2016.
(2) These restricted shares vested on January 3, 2016.
(3) These options vested on April 25, 2016.
(4) These restricted shares vested on April 25, 2016.
(5) These options vest annually, with one-half vesting on each of January 29, 2016 and January 29, 2017.
(6) These restricted shares vest annually, with one-half vesting on each of January 29, 2016 and January 29, 2017.
(7) These options vest annually, with one-half vesting on each of January 31, 2016 and January 31, 2017.
(8) These restricted shares vest annually, with one-half vesting on each of January 31, 2016 and January 31, 2017.
(9) These options vest annually, with one-third vesting on each of January 26, 2016, January 26, 2017 and January 26, 2018.
(10) These restricted shares vest annually, with one-third vesting on each of January 26, 2016, January 26, 2017 and January 26, 2018.
(11) These restricted shares vested on January 26, 2016.
(12) These restricted shares vested on May 9, 2016.
(13) These restricted shares vest annually, with one-half vesting on each of July 14, 2016 and July 14, 2017.
(14)

These options vest annually, with one-half vesting on each of July 14, 2016 and July 14, 2017.

(15) On January 26, 2016, we entered into an option cancellation and release agreement with each of the named executive officers included in the table above, pursuant to which the parties agreed to cancel options which their exercise prices is ranging from $7.20 to $78.00 previously granted to each of the named executive officers included in the table above.

Option Exercises and Stock Vested

There were no stock options exercised by our named executive officers during the twelve months ended December 31, 2015.

2011 UMBRELLA Option Plan

On March 28, 2011, our board of directors and stockholders adopted and approved the InspireMD, Inc. 2011 UMBRELLA Option Plan, which was subsequently amended on October 31, 2011 and December 21, 2012. Under the InspireMD, Inc. 2011 UMBRELLA Option Plan, we have reserved 500,000 shares of our common stock as awards to the employees, consultants, and service providers to InspireMD, Inc. and its subsidiaries and affiliates worldwide.

The InspireMD, Inc. 2011 UMBRELLA Option Plan currently consists of three components, the primary plan document that governs all awards granted under the InspireMD, Inc. 2011 UMBRELLA Option Plan, and two appendices: (i) Appendix A, designated for the purpose of grants of stock options and restricted stock awards to Israeli employees, consultants, officers and other service providers and other non-U.S. employees, consultants, and service providers, and (ii) Appendix B, which is the 2011 U.S. Equity Incentive Plan, designated for the purpose of grants of stock options and restricted stock awards to U.S. employees, consultants, and service providers who are subject to the U.S. income tax. On December 21, 2012, the stockholders approved the awarding of "incentive stock options" pursuant to the U.S. portion of the plan.

The purpose of the InspireMD, Inc. 2011 UMBRELLA Option Plan is to provide an incentive to attract and retain employees, officers, consultants, directors, and service providers whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success. The InspireMD, Inc. 2011 UMBRELLA Option Plan is administered by our compensation committee. Unless terminated earlier by the board of directors, the InspireMD, Inc. 2011 UMBRELLA Option Plan will expire on March 27, 2021.

2013 Long-Term Incentive Plan

On December 16, 2013, our stockholders approved the InspireMD, Inc. 2013 Long-Term Incentive Plan, which was adopted by our board of directors on October 25, 2013.

The purpose of the InspireMD, Inc. 2013 Long-Term Incentive Plan is to provide an incentive to attract and retain employees, officers, consultants, directors, and service providers whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success. The InspireMD, Inc. 2013 Long-Term Incentive Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem. The InspireMD, Inc. 2013 Long-Term Incentive Plan is administered by our compensation committee. A total of 500,000 shares of common stock are reserved for awards under the InspireMD, Inc. 2013 Long-Term Incentive Plan.

The InspireMD, Inc. 2013 Long-Term Incentive Plan is intended serve as an "umbrella" plan for us and our subsidiaries worldwide. Therefore, if so required, appendices may be added to the InspireMD, Inc. 2013 Long-Term Incentive Plan in order to accommodate local regulations that do not correspond to the scope of the InspireMD, Inc. 2013 Long-Term Incentive Plan. Attached as Appendix A to the InspireMD, Inc. 2013 Long-Term Incentive Plan is the InspireMD, Inc. 2013 Employee Stock Incentive Plan, for the purpose of making grants of stock options, restricted stock, and other stock incentive awards pursuant to Sections 102 and 3(i) of the Israeli Income Tax Ordinance (New Version), 1961 to Israeli employees and officers and any other service providers or control holders of us who are subject to Israeli Income Tax.

On September 9, 2015, our stockholders approved an amendment to the InspireMD, Inc. 2013 Long-Term Incentive Plan to increase the number of shares of common stock available for issuance pursuant to awards under the InspireMD, Inc. 2013 Long-Term Incentive Plan by 470,000 shares of common stock, to a total of 970,000 shares of common stock.

On May 24, 2016, our stockholders approved the second amendment to the InspireMD, Inc. 2013 Long-Term Incentive Plan to increase the number of shares of common stock available for issuance pursuant to awards under the InspireMD, Inc. 2013 Long-Term Incentive Plan by 10,000,000 shares of common stock, to a total of 10,970,000 shares of common stock.

Director Compensation

The following table shows information concerning our directors, other than Alan Milinazzo and James Barry, Ph.D., during the twelve months ended December 31, 2015.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	**Option Awards[1] ($)**		All Other Compensation ($)	Total ($)
Sol J. Barer, Ph.D.	8,750	—	80,629	(2)	—	89,379
Paul Stuka	9,750	—	69,385	(3)	—	79,134
James J. Loughlin	10,250	—	71,760	(4)	—	82,010
Michael Berman	8,000	—	61,070	(5)	—	69,070
Campbell Rogers, M.D.	6,750	—	55,132	(6)	—	61,882

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(1) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to the twelve months ended December 31, 2015, in accordance with FASB ASC Topic 718. Fair value is based on the Black-Scholes option pricing model using the fair value of the underlying shares at the measurement date. For additional discussion of the valuation assumptions used in determining stock-based compensation and the grant date fair value for stock options, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Share-based compensation” and Note 2 — “Significant Accountin Policies” and Note 9 — “Equity” of the Notes to the Consolidated Financial Statements for the Year Ended December 31, 2015 included herein.

(2) As of December 31, 2015, Dr. Barer had outstanding options to purchase up to 135,584 shares of our common stock.

(3) As of December 31, 2015, Mr. Stuka had outstanding options to purchase up to 45,808 shares of our common stock.

(4) As of December 31, 2015, Mr. Loughlin had outstanding options to purchase up to 45,797 shares of our common stock. Mr. Loughlin ceased serving as a director following our 2016 annual meeting of stockholders held on May 24, 2016.

(5) As of December 31, 2015, Mr. Berman had outstanding options to purchase up to 42,666 shares of our common stock.

(6) As of December 31, 2015, Dr. Rogers had outstanding options to purchase up to 39,628 shares of our common stock.

Name	Shares Subject to Options		Grant Date	Exercise Price	Vesting Schedule	Expiration	Fair Market Value on Grant Date
Sol J. Barer, Ph.D.	4,162	(1)(6)	January 5, 2015	$ 7.8	Fully vested as of grant date	January 5, 2025	$ 17,380
	9,161	(2)(6)	January 26, 2015	$ 7.2	One-third annually in 2016, 2017 and 2018 on the anniversary of the date of grant, provided that Dr. Barer is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	January 26, 2025	$ 39,059
	4,389	(3)	March 31, 2015	$ 3.2	Fully vested as of grant date	March 31, 2025	$ 7,971
	4,967	(4)	June 30, 2015	$ 2.8	Fully vested as of grant date	June 30, 2025	$ 8,060
	8,155	(5)		$ 1.7	Fully vested as of grant date		$ 8,159

			September 30, 2015			September 30, 2025	
Paul Stuka	4,637	(1)(6)	January 5, 2015	$ 7.8	Fully vested as of grant date	January 5, 2025	$ 19,366
	5,409	(2)(6)	January 26, 2015	$ 7.2	One-third annually in 2016, 2017 and 2018 on the anniversary of the date of grant, provided that Mr. Stuka is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	January 26, 2025	$ 23,064
	4,891	(3)	March 31, 2015	$ 3.2	Fully vested as of grant date	March 31, 2025	$ 8,882
	5,534	(4)	June 30, 2015	$ 2.8	Fully vested as of grant date	June 30, 2025	$ 8,981
	9,087	(5)	September 30, 2015	$ 1.7	Fully vested as of grant date	September 30, 2025	$ 9,091
James J. Loughlin	4,875	(1)(6)	January 5, 2015	$ 7.8	Fully vested as of grant date	January 5, 2025	$ 20,359
	5,409	(2)(6)	January 26, 2015	$ 7.2	One-third annually in 2016, 2017 and 2018 on the anniversary of the date of grant, provided that Mr. Loughlin is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	January 26, 2025	$ 23,064
	5,142	(3)	March 31, 2015	$ 3.2	Fully vested as of grant date	March 31, 2025	$ 9,338
	5,818	(4)	June 30, 2015	$ 2.8	Fully vested as of grant date	June 30, 2025	$ 9,442
	9,553	(5)	September 30, 2015	$ 1.7	Fully vested as of grant date	September 30, 2025	$ 9,558
Michael Berman	3,805	(1)(6)	January 5, 2015	$ 7.8	Fully vested as of grant date	January 5, 2025	$ 15,890
	5,409	(2)(6)	January 26, 2015	$ 7.2	One-third annually in 2016, 2017 and 2018 on the anniversary of the date of grant, provided that Mr. Berman is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	January 26, 2025	$ 23,064
	4,013	(3)	March 31, 2015	$ 3.2	Fully vested as of grant date	March 31, 2025	$ 7,228
	4,541	(4)	June 30, 2015	$ 2.8	Fully vested as of grant date	June 30, 2025	$ 7,369
	7,456	(5)	September 30, 2015	$ 1.7	Fully vested as of grant date	September 30, 2025	$ 7,460
Campbell Rogers, M.D.	3,210	(1)(6)	January 5, 2015	$ 7.8	Fully vested as of grant date	January 5, 2025	$ 13,407
	5,409	(2)(6)	January 26, 2015	$ 7.2	One-third annually in 2016, 2017 and 2018 on the anniversary of the date of grant, provided that Mr. Rogers is providing services to us or our	January 26, 2025	$ 23,064

				subsidiaries or affiliates on the applicable vesting date.		
3,386	(3)	March 31, 2015	$ 3.2	Fully vested as of grant date	March 31, 2025	$ 6,149
3,832	(4)	June 30, 2015	$ 2.8	Fully vested as of grant date	June 30, 2025	$ 6,218
6,291	(5)	September 30, 2015	$ 1.7	Fully vested as of grant date	September 30, 2025	$ 6,294

(1) These options were granted in lieu of the cash compensation that was owed to them for their services as directors for the third and fourth calendar quarters of 2014.

(2) These options were granted as the director's 2015 annual director compensation.

(3) These options were granted in lieu of the cash compensation for their services as directors for the first calendar quarter of 2015.

(4) These options were granted in lieu of the cash compensation for their services as directors for the second calendar quarter of 2015.

(5) These options were granted in lieu of the cash compensation for their services as directors for the third calendar quarter of 2015.

(6) On January 26, 2016, we entered into an option cancellation and release agreement with each of the directors, pursuant to which the parties agreed to cancel options which their exercise prices is ranging from $7.20 to $100.00 previously granted to each of the directors.

For the 2014 calendar year, our board approved the following compensation for our independent directors: (i) a $25,000 stipend, payable quarterly; (ii) annual committee chair compensation (effective April 1, 2014) of $12,000 for the chairman of the audit committee, $8,000 for the chairman of the compensation committee and $5,000 for the chairmen of the nominating and corporate governance committee and the research and development committee; (iii) annual committee membership compensation (effective April 1, 2014) of $4,000 for members of the audit committee and the compensation committee and $2,000 for members of the nominating and corporate governance committee and the research and development committee; (iv) an option to purchase 50,000 shares of our common stock for each board member; and (v) an option to purchase an additional 35,000 shares of our common stock for the chairman of the board.

On January 5, 2015, our compensation committee amended its compensation policy for directors to provide that effective as of July 1, 2014, each director would forego any cash compensation in exchange for such number of immediately vested 10 year stock options having a Black-Scholes value equal to the cash compensation otherwise due to such director under our current director compensation policies. As a result of such amendment, on January 5, 2015, we granted to each of Dr. Barer, Mr. Berman, Mr. Loughlin, Dr. Rogers and Mr. Stuka options to purchase 41,611, 38,045, 48,745, 32,100 and 46,367 shares of common stock, respectively, in lieu of the cash compensation that was owed to them for their services as directors for the third and fourth calendar quarters of 2014 (which was $17,500, $16,000, $20,500, $13,500 and $19,500, respectively). Each of these options has a term of 10 years, an exercise price of $0.78 per share, the closing price of our common stock on the date of the grant, and vested immediately. On January 26, 2016, we entered into an option cancellation and release agreement with the directors, pursuant to which the parties agreed to cancel options which their exercise prices is ranging from $7.20 to $100.00 previously granted to each of the directors.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2015 with respect to our equity compensation plans under which our equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	677,762		24.2	458,533
Equity compensation plans not approved by security holders	87,722	(1)	68.42	—
Total	765,484		29.26	

(1) Comprised of awards made to individuals outside the InspireMD, Inc. 2011 UMBRELLA Option Plan and 2013 Long Term Incentive Plan, as described below:

- In April 2008, we issued options to purchase 147 shares of common stock to a provider of finder services who assisted InspireMD Ltd. in raising funds in 2008. The exercise price of these options is $49.285 per share. These options are fully vested and expire in June 2016.

- Options issued to current director: in November 2011, we issued options to purchase an aggregate of 72,500 shares of common stock to Dr. Barer, the chairman of our board of directors. The exercise price of these options is $78 per share. An option to purchase 18,125 shares of common stock vested on April 11, 2013, when our common stock was first listed on a national securities exchange. An option to purchase 18,125 shares of common stock vested on May 10, 2013, after we received research coverage from a second investment bank that ranked in the top twenty investment banks in terms of life science underwritings. The option to purchase 36,250 shares of common stock vests in substantially equal monthly installments (with any fractional shares vesting on the last vesting date) on the last business day of each calendar month over a two year period from the date of grant, with the first installment vesting on November 30, 2011, provided that Dr. Barer is still providing services to us in some capacity as of each such vesting date.

- Options issued to current vice president of global marketing and strategy: in September 2013, we issued options to purchase 15,000 shares of common stock to David Blossom. The exercise price of these options was $22.3 per share. The options vest annually with one-third vesting on September 16, 2014, September 16, 2015 and September 16, 2016. The options expire on September 16, 2023.

Directors' and Officers' Liability Insurance

We currently have directors' and officers' liability insurance insuring our directors and officers against liability for acts or omissions in their capacities as directors or officers, subject to certain exclusions. Such insurance also insures us against losses which we may incur in indemnifying our officers and directors. In addition, we have entered into indemnification agreements with key officers and directors and such persons shall also have indemnification rights under applicable laws, and our certificate of incorporation and bylaws.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

On November 7, 2014, we closed a registered direct offering of approximately 626,000 shares of common stock and warrants to purchase up to approximately 313,000 shares of common stock at a price of $13.00 per share, for gross proceeds of $8.1 million, before deducting placement agents' fees and estimated offering expenses. Each purchaser received a warrant to purchase one-half of a share of common stock for each share of common stock that it purchased in the offering. The warrants are non-exercisable for six months and have a term of exercise of 42 months from the date of issuance and an exercise price of $17.50. The purchasers in the offering included Dr. Barer, the chairman of our board of directors, who purchased 19,231 shares of common stock and warrants to purchase 9,616 shares of common stock, for a purchase price of $250,000, Mr. Milinazzo, our president, chief executive officer and director until his resignation from such positions on June 6, 2016, and Dr. Barry, our executive vice president and chief operating officer, who each purchased 1,924 shares of common stock and warrants to purchase 962 shares of common stock, for a purchase price of $25,000, and Rick Olson, our then-current vice president of global sales and operations of InspireMD Ltd, who purchased 11,539 shares of common stock and warrants to purchase 5,770 shares of common stock, for a purchase price of $150,000.

On March 9, 2015, we closed a public offering of approximately 34.4 million shares of common stock and warrants to purchase up to approximately 34.4 million shares of common stock at a price of $5.5 per share, for gross proceeds of $13.7 million, before deducting placement agents' fees and estimated offering expenses. Each purchaser received a warrant to purchase one share of common stock for each share of common stock that it purchased in the offering. The warrants have a term of exercise of five years from the date of issuance and an exercise price of $5.5. The purchasers in the offering included: Dr. Barer, the chairman of our board of directors, who purchased 250,000 shares of common stock and warrants to purchase 250,000 shares of common stock, for a purchase price of $1,000,000, Osiris Investment Partners, L.P., of which Mr. Stuka, our director, is the principal and managing member, which purchased 62,500 shares of common stock and warrants to purchase 62,500 shares of common stock, for a purchase price of $250,000 and Mr. Milinazzo, our president, chief executive officer and director until his resignation from such positions on June 6, 2016, who purchased 12,500 shares of common stock and warrants to purchase 12,500 shares of common stock, for a purchase price of $50,000.

On March 21, 2016, we sold 1,900,000 shares of our common stock and warrants to purchase 950,000 shares of our common stock in a public offering. Each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. The purchasers in the offering included Sabby Healthcare Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd., for which Sabby Management LLC serves as the investment manager, who purchased an aggregate of 750,000 shares of common stock and warrants to purchase 375,000 shares of common stock, for a purchase price of $442,500.

On March 21, 2016, we closed a private placement of 1,033,051 shares of our common stock and warrants to purchase up to 516,526 shares of our common stock with certain of our officers and directors. The purchasers in the private placement included: Dr. Barer, the chairman of our board of directors, who purchased 847,458 shares of common stock and warrants to purchase 423,729 shares of common stock, for a purchase price of $500,000, Osiris Investment Partners, L.P., of which Mr. Stuka, our director, is the principal and managing member, which purchased 127,119 shares of common stock and warrants to purchase 63,560 shares of common stock, for a purchase price of $75,000, Mr. Loughlin, who served as our director until May 24, 2016, purchased 50,000 shares of common stock and warrants to purchase 25,000 shares of common stock, for a purchase price of $29,500 and Dr. Rogers, our director, who purchased 8,474 shares of common stock and warrants to purchase 4,237 shares of common stock, for a purchase price of $5,000.

In accordance with our audit committee charter, the audit committee is required to approve all related party transactions. In general, the audit committee will review any proposed transaction that has been identified as a related party transaction under Item 404 of Regulation S-K, which means a transaction, arrangement or relationship in which we and any related party are participants in which the amount involved exceeds $120,000. A related party includes (i) a director, director nominee or executive officer of us, (ii) a security holder known to be an owner of more than 5% of our voting securities, (iii) an immediate family member of the foregoing or (iv) a corporation or other entity in which any of the foregoing persons is an executive, principal or similar control person or in which such person has a 5% or greater beneficial ownership interest.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of our common stock as of June 24, 2016 by:

- each person known by us to beneficially own more than 5.0% of our common stock;
- each of our directors;
- each of the named executive officers; and
- all of our directors and executive officers as a group.

The percentages of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Securities and Exchange Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security.

Certain of our directors have indicated an interest in purchasing an aggregate of up to approximately $1,100,000 in Preferred Stock and accompanying warrants in this offering at the offering price. Based on an assumed public offering price of $39 per share of Preferred Stock (100 times $0.39 , the last reported sales price of our common stock on June 23, 2016), these directors would purchase up to an aggregate of 28,206 shares of Preferred Stock in this offering based on their indications of interest. However, because indications of interest are not binding agreements or commitments to purchase, these directors may determine to purchase fewer shares than they indicate an interest in purchasing or not to purchase any shares in this offering. The following table does not reflect any potential purchases by these directors.

Except as indicated in the footnotes to this table, each beneficial owner named in the table below has sole voting and sole investment power with respect to all shares beneficially owned and each person's address is c/o InspireMD, Inc., 321 Columbus Avenue, Boston, MA 02116. As of June 24, 2016, we had 10,701,320 shares outstanding.

Name of Beneficial Owner	**Number of Shares Beneficially**	**Percentage Beneficially**

	Owned(1)		Owned(1)	
5% Owners				
Sabby Management LLC.(2)	1,878,871	(3)	16.39	%
Officers and Directors				
Alan W. Milinazzo	150,527	(4)	1.4	%
Craig Shore	15,362	(5)	*	
Sol J. Barer, Ph.D.	2,085,046	(6)	18.17	%
James Barry, Ph.D.	23,605	(7)	*	
Michael Berman	19,011	(8)	*	
Campbell Rogers, M.D.	26,221	(9)	*	
Paul Stuka	412,632	(10)	3.8	%
Isaac Blech	195,000	(11)	1.79	%
All directors and executive officers as a group (8 persons)	2,927,403		24.68	%

*Represents ownership of less than one percent.

(1) Shares of common stock beneficially owned and the respective percentages of beneficial ownership of common stock assumes the exercise of all options, warrants and other securities convertible into common stock beneficially owned by such person or entity currently exercisable or exercisable within 60 days of June 24, 2016. Shares issuable pursuant to the exercise of stock options and warrants exercisable within 60 days are deemed outstanding and held by the holder of such options or warrants for computing the percentage of outstanding common stock beneficially owned by such person, but are not deemed outstanding for computing the percentage of outstanding common stock beneficially owned by any other person.

(2) Sabby Management LLC's address is 10 Mountainview Road, Suite 205, Upper Saddle River, New Jersey 07458

(3) Based on our knowledge, including Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission on January 12, 2016, comprised of (i) 1,045,698 shares of common stock owned directly by Sabby Healthcare Master Fund, Ltd., (ii) 92,787 shares of common stock owned directly by Sabby Volatility Warrant Master Fund, Ltd., (iii) warrants to purchase 57,693 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016 owned directly by Sabby Healthcare Volatility Master Fund, Ltd., (iv) warrants to purchase 370,193 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016 owned directly by Sabby Volatility Warrant Master Fund, Ltd. and (v) warrants to purchase 312,500 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016 owned directly by Sabby Healthcare Master Fund, Ltd. Sabby Management, LLC serves as the investment manager of Sabby Healthcare Master Fund, Ltd. and Sabby Volatility Warrant Master Fund, Ltd. Hal Mintz serves as manager of Sabby Management, LLC. As such, Sabby Management, LLC and Hal Mintz may be deemed to beneficially own these securities.

(4) Includes warrants to purchase 13,462 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016. Mr. Milinazzo served as our president, chief executive officer and director until his resignation from such positions on June 6, 2016.

(5) Consists of shares of common stock.

(6) Includes options to purchase 90,011 shares of common stock and warrants to purchase 683,345 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016.

(7) Includes warrants to purchase 962 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016.

(8) Includes options to purchase 16,010 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016.

(9)

Includes options to purchase 13,509 shares of common stock and warrants to purchase 4,237 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016.

(10) Paul Stuka is the principal and managing member of Osiris Investment Partners, L.P., and, as such, has beneficial ownership of the (i) 267,060 shares of common stock and (ii) currently exercisable warrants to purchase 63,560 shares of common stock held by Osiris Investment Partners, L.P., in addition to personally holding options to purchase 19,512 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016 and warrants to purchase 62,500 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016.

(11) Consists of options to purchase 195,000 shares of common stock that are currently exercisable or exercisable within 60 days of June 24, 2016.

MATERIAL U.S. FEDERAL TAX CONSEQUENCES

The following is a general summary of material U.S. federal income tax consequences of the acquisition of shares of Preferred Stock (the “Shares”) in the offering, the acquisition, exercise, disposition, and lapse of warrants (the “Warrants”) in the offering, and the acquisition, ownership, and disposition of shares of our common stock issuable as a distribution with respect to the Shares, upon exercise of the Warrants or upon conversion of the Shares (such as common stock, the “Common Stock”).

Scope of this Summary

This summary is for general information purposes only and does not purport to be a complete analysis of all potential U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares, Common Stock and Warrants. Except as specifically set forth below, this summary does not discuss applicable tax reporting requirements. In addition, this summary does not take into account the individual facts and circumstances of any particular holder that may affect the U.S. federal income tax consequences to such holder. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any particular holder. Each holder should consult its own tax advisors regarding the U.S. federal, state and local, and non-U.S. tax consequences of the acquisition, ownership and disposition of Shares, Common Stock and Warrants.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the “IRS”) has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares, Common Stock and Warrants. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary.

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, published rulings of the IRS, published administrative positions of the IRS, and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this prospectus. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis.

U.S. Holders

As used in this summary, the term “U.S. Holder” means a beneficial owner of Shares and Warrants acquired pursuant to this prospectus and a beneficial owner of Common Stock acquired upon conversion of the Shares, exercise of the Warrants or acquired as a distribution with respect to the Shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation) organized under the laws of the U.S., any state thereof or the District of Colombia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

Non-U.S. Holders

The term “Non-U.S. Holder” means any beneficial owner of Shares and Warrants acquired pursuant to this prospectus and a beneficial owner of Common Stock acquired upon conversion of the Shares, exercise of the Warrants or acquired as a distribution with respect to the Shares that is not a U.S. Holder.

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Holders Subject to Special U.S. Federal Income Tax Rules

This summary deals only with persons or entities who acquire Shares and Warrants in the offering and who hold Shares, Common Stock or Warrants as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes). This summary does not address all aspects of U.S. federal income taxation that may be applicable to holders in light of their particular circumstances or to holders subject to special treatment under U.S. federal income tax law, such as (without limitation): banks, insurance companies, and other financial institutions; dealers or traders in securities, commodities or foreign currencies; regulated investment companies; U.S. expatriates or former long-term residents of the U.S.; persons holding Shares, Warrants or Common Stock as part of a straddle, appreciated financial position, synthetic security, hedge, conversion transaction or other integrated investment; persons holding Shares, Warrants or Common Stock as a result of a constructive sale; entities that acquire Shares, Warrants or Common Stock that are treated as partnerships for U.S. federal income tax purposes and partners in such partnerships; real estate investment trusts; U.S. Holders that have a "functional currency" other than the U.S. dollar; holders that acquired Shares, Warrants or Common Stock in connection with the exercise of employee stock options or otherwise as consideration for services; or holders that are "controlled foreign corporations" or "passive foreign investment companies." Holders that are subject to special provisions under the Code, including holders described immediately above, should consult their own tax advisors regarding the U.S. federal, state and local, and non-U.S. tax consequences arising from and relating to the acquisition, ownership and disposition of Shares, Warrants and Common Stock.

If an entity or arrangement that is classified as a partnership (or other "pass-through" entity) for U.S. federal income tax purposes holds Shares, Warrants or Common Stock, the U.S. federal income tax consequences to such entity and the partners (or other owners) of such entity generally will depend on the activities of the entity and the status of such partners (or owners). This summary does not address the tax consequences to any such owner or entity. Partners (or other owners) of entities or arrangements that are classified as partnerships or as "pass-through" entities for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences arising from and relating to the acquisition, ownership, and disposition of Shares, Warrants or Common Stock.

Tax Consequences Not Addressed

This summary does not address the U.S. state and local, U.S. federal estate and gift, U.S. federal alternative minimum tax, or non-U.S. tax consequences to holders of the acquisition, ownership, and disposition of Shares, Warrants and Common Stock. Each holder should consult its own tax advisors regarding the U.S. state and local, U.S. federal estate and gift, U.S. federal alternative minimum tax, and non-U.S. tax consequences of the acquisition, ownership, and disposition of Shares, Warrants and Common Stock.

Certain Material U.S. Federal Income Tax Consequences of the Purchase of Shares and Warrants to U.S. Holders and Non-U.S. Holders

For U.S. federal income tax purposes, the purchase of Shares and Warrants in this offering by U.S. Holders and Non-U.S. Holders will be treated as the purchase of two components: a component consisting of Shares and a component consisting of Warrants, with each Warrant enabling its holder to purchase 100 shares of common stock. The purchase price for the Shares and Warrants will be allocated between these two components in proportion to their relative fair market values at the time the Shares and Warrants are purchased by the holder. This allocation of the purchase price will establish a holder's initial tax basis for U.S. federal income tax purposes for each share of Shares and Warrant.

U.S. Federal Income Tax Consequences to U.S. Holders of the Exercise and Disposition of Warrants

Exercise of Warrants

A U.S. Holder generally will not recognize gain or loss on the exercise of a Warrant and related receipt of our common shares (unless cash is received in lieu of the issuance of a fractional share of Common Stock). A U.S. Holder's initial tax basis in Common Stock received on the exercise of a Warrant should be equal to the sum of (a) such U.S. Holder's tax basis in such Warrant plus (b) the exercise price paid by such U.S. Holder on the exercise of such Warrant. A U.S. Holder's holding period for Common Stock received on the exercise of a Warrant should begin on the date that such Warrant is exercised by such U.S. Holder.

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Disposition of Warrants

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of a Warrant (including upon lapse or expiration) in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in the Warrant sold or otherwise disposed of. Any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the Warrant is held for more than one year. Long-term capital gains recognized by certain non-corporate U.S. Holders (including individuals) will generally be subject to a preferential rate of U.S. federal income tax. Deductions for capital losses are subject to limitations.

Certain Adjustments to the Warrants

Under Section 305 of the Code, an adjustment to the number of Common Stock that will be issued on the exercise of the Warrants, or an adjustment to the exercise price of the Warrants, may be treated as a constructive distribution to a U.S. Holder of the Warrants if, and to the extent that, such adjustment has the effect of increasing such U.S. Holder's proportionate interest in our "earnings and profits" or assets, depending on the circumstances of such adjustment (for example, if such adjustment is to compensate for a distribution of cash or other property to our shareholders). Adjustments to the exercise price of a Warrant made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing dilution of the interest of the holders of the Warrants should generally not result in a constructive distribution. (See the more detailed discussion of the rules applicable to distributions made by us at "U.S. Federal Income Tax Consequences to U.S. Holders of the Acquisition, Ownership and Disposition of Shares and Common Stock - Distributions" below).

U.S. Federal Income Tax Consequences to U.S. Holders of the Acquisition, Ownership and Disposition of Shares and Common Stock

Distributions

Cash distributions made on Shares and Common Stock generally will be included in a U.S. Holder's income as ordinary dividend income to the extent of our current and accumulated earnings and profits (determined under U.S. federal income tax principles) as of the end of our taxable year in which the distribution occurs. To the extent those distributions exceed our current and accumulated earnings and profits, they will constitute a return of capital and will first reduce a U.S. Holder's basis in Shares or Common Stock, but not below zero, and then will be treated as gain from the sale of stock, which will be taxable according to rules discussed under the heading "Sale, Certain Redemptions or Other Taxable Disposition of Shares and Common Stock" below. (As of May 2016, we have no current or accumulated earning and profits.) Cash dividends received by non-corporate U.S. Holders are generally taxed at a maximum tax rate of 20%, provided certain holding period and other requirements are satisfied. Cash distributions in excess of our current and accumulated earnings and profits will be treated as a return of capital to the extent of a U.S. Holder's adjusted tax basis in the Shares or Common Stock and thereafter as capital gain from the sale or exchange of such Shares or Common Stock, which will be taxable according to rules discussed under the heading "Sale, Certain Redemptions or Other Taxable Dispositions of Shares and Common Stock," below. Cash dividends received by a corporate holder may be eligible for a dividends received deduction, subject to applicable limitations.

Although it is not entirely free from doubt, U.S. holders of Shares should not be subject to U.S. federal income tax upon the receipt of Common Stock issued as a dividend upon the conversion of Shares. U.S. Holders should consult their tax advisors concerning the tax treatment of distributions of Common Stock made on the Shares.

Sale, Certain Redemptions or Other Taxable Dispositions of Shares and Common Stock

Upon the sale, redemption, or other taxable disposition of Shares or Common Stock, a U.S. Holder generally will recognize capital gain or loss equal to the difference between (i) the amount of cash and the fair market value of any property received upon such taxable disposition and (ii) the U.S. Holder's adjusted tax basis in the Shares or Common Stock. Such capital gain or loss will be long-term capital gain or loss if a U.S. Holder's holding period in the Shares or Common Stock is more than one year at the time of the taxable disposition. Long-term capital gains recognized by non-corporate U.S. Holders will generally be subject to a maximum U.S. federal income tax rate of 20%. Deductions for capital losses are subject to limitations.

Conversion of Shares in Exchange for Common Stock

A U.S. Holder will not recognize any gain or loss by reason of receiving Common Stock in exchange for our Shares upon conversion of the Shares. A U.S. Holder's initial tax basis in Common Stock received upon the conversion of its Shares (including Common Stock received as a dividend upon conversion) should be equal to such U.S. Holder's tax basis in such Shares. A U.S. Holder's holding period for Common Stock received upon the conversion of its Shares should carry over from the converted Shares.

Constructive Dividends

The conversion rate of the Shares is subject to adjustment in certain circumstances. Adjustments that have the effect of increasing the proportionate interest of holders of our Shares in our assets or earnings can give rise to deemed dividend income to such holders. Similarly, a failure to adjust the conversion price to reflect a stock dividend or other events increasing the proportionate interest of the holders of Common Stock can, in some circumstances, give rise to deemed dividend income to such common stock holders. Such deemed dividend income is taxable to such holders in the taxable year of the adjustment (or failure to adjust).

Other U.S. Federal Income Tax Consequences Applicable to U.S. Holders

Additional Tax on Passive Income

Individuals, estates and certain trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on “net investment income” including, among other things, dividends on and net gain from the disposition of Shares or Common Stock. U.S. Holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of Shares and Common Stock.

Information Reporting and Backup Withholding

Information reporting requirements generally will apply to payments of dividends on Shares and Common Stock and to the proceeds of a sale of Shares or Common Stock paid to a U.S. Holder unless the U.S. Holder is an exempt recipient (such as a corporation). Backup withholding will apply to those payments if the U.S. Holder fails to provide its correct taxpayer identification number, or certification of exempt status, or if the U.S. Holder is notified by the IRS that it has failed to report in full payments of interest and dividend income. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder’s U.S. federal income tax liability, if any, provided the required information is furnished in a timely manner to the IRS.

U.S. Federal Income Tax Consequences to Non-U.S. Holders of the Acquisition, Ownership and Disposition of Shares and Common Stock

U.S. Federal Income Tax Consequences to Non-U.S. Holders of the Exercise and Disposition of Warrants

Exercise of Warrants

A Non-U.S. Holder generally will not recognize gain or loss on the exercise of a Warrant and related receipt of Common Stock (unless cash is received in lieu of the issuance of a fractional share of Common Stock and certain other conditions are present, as discussed below under "Sale or Other Taxable Disposition of Shares and Common Stock"). A Non-U.S. Holder's initial tax basis in Common Stock received on the exercise of a Warrant should be equal to the sum of (a) such Non-U.S. Holder's tax basis in such Warrant plus (b) the exercise price paid by such Non-U.S. Holder on the exercise of such Warrant. A Non-U.S. Holder's holding period for Common Stock received on the exercise of a Warrant should begin on the date that such Warrant is exercised by such Non-U.S. Holder.

Certain Adjustments to the Warrants

Under Section 305 of the Code, an adjustment to the number of Common Stock that will be issued on the exercise of the Warrants, or an adjustment to the exercise price of the Warrants, may be treated as a constructive distribution to a Non-U.S. Holder of the Warrants if, and to the extent that, such adjustment has the effect of increasing such Non-U.S. Holder's proportionate interest in our "earnings and profits" or assets, depending on the circumstances of such adjustment (for example, if such adjustment is to compensate for a distribution of cash or other property to our shareholders). See the more detailed discussion of the rules applicable to distributions made by us under the heading "Dividends" below.

U.S. Federal Income Tax Consequences to Non-U.S. Holders of the Acquisition, Ownership and Disposition of Shares and Common Stock

Conversion of Shares in Exchange for Common Shares

A Non-U.S. holder will not recognize any gain or loss by reason of receiving Common Stock, in exchange for our Shares upon conversion of the Shares. A Non-U.S. Holder's initial tax basis in Common Stock received upon the conversion of its Shares (including Common Stock received as a dividend upon conversion) should be equal to such Non-U.S. Holder's tax basis in its converted Shares. A Non-U.S. Holder's holding period for Common Stock received upon the conversion of its Shares should carry over from the Shares.

Constructive Dividends

The conversion rate of our Shares is subject to adjustment in certain circumstances. Adjustments that have the effect of increasing the proportionate interest of holders of our Shares in our assets or earnings can give rise to deemed dividend income to such holders. Similarly, a failure to adjust the conversion price to reflect a stock dividend or other events increasing the proportionate interest of the holders of Common Stock can, in some circumstances, give rise to deemed dividend income to such common stock holders. Such deemed dividend income is taxable to such holders in the taxable year of the adjustment (or failure to adjust). Any such deemed dividend with respect to Common Stock or Shares would be subject to U.S. federal withholding tax on dividend income to the same extent as an actual cash distribution, as described below under "U.S. Federal Income Tax Consequences to Non-U.S. Holders of the Acquisition, Ownership and Disposition of Shares and Common Stock — Distributions." Because deemed distributions would not give rise to any cash from which any applicable withholding tax could be satisfied, we may withhold the U.S. federal tax on such dividend from any cash, shares of common stock or Shares, or sales proceeds otherwise payable to a non-U.S. holder.

Distributions

Cash distributions on Shares or Common Stock will constitute dividends for U.S. federal income tax purposes to the extent paid from our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed our current and accumulated earnings and profits, they will constitute a return of capital and will first reduce a Non-U.S. Holder's basis in Shares or Common Stock, but not below zero, and then will be treated as gain from the sale of stock, which will be taxable according to rules discussed under the heading "Sale or Other Taxable Disposition of Shares and Common Stock," below. (As of May 2016, we have no current or accumulated earning and profits.) Any cash dividends paid to a Non-U.S. Holder with respect to Shares or Common Stock generally will be subject to withholding tax at a 30% gross rate, subject to any exemption or lower rate under an applicable treaty if the Non-U.S. Holder provides us with a properly executed IRS Form W-8BEN-E or W-8BEN. A Non-U.S. Holder that provides us with a properly executed IRS Form W-8ECI (or other applicable form) relating to income effectively connected with the conduct of a trade or business within the U.S. will not be subject to the 30% withholding tax.

Although it is not entirely free from doubt, non-U.S. holders of Shares should not be subject to U.S. federal income tax upon the receipt of Common Stock issued as a dividend upon the conversion of Shares. Non-U.S. Holders should consult their tax advisors concerning the tax treatment of distributions of Common Stock made on the Shares.

Cash dividends that are effectively connected with the conduct of a trade or business within the U.S. are not subject to the withholding tax (assuming proper certification and disclosure), but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates, subject to an applicable treaty that provides otherwise. Any such effectively connected income received by a non-U.S. corporation may, under certain circumstances, be subject to an additional branch profits tax on its effectively connected earnings and profits at a 30% rate, subject to any exemption or lower rate as may be specified by an applicable income tax treaty.

A Non-U.S. Holder of Shares or Common Stock who wishes to claim the benefit of an applicable treaty rate or exemption is required to satisfy certain certification and other requirements. If a Non-U.S. Holder is eligible for an exemption from or a reduced rate of U.S. withholding tax pursuant to an income tax treaty, it may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

Sale or Other Taxable Disposition of Shares, Common Stock and Warrant

In general, a Non-U.S. Holder of Shares, Common Stock or Warrants will not be subject to U.S. federal income tax on gain recognized from a sale, exchange, or other taxable disposition of such Shares, Common Stock or Warrants, unless:

- the gain is effectively connected with a U.S. trade or business carried on by the Non-U.S. Holder (and, where an income tax treaty applies, is attributable to a U.S. permanent establishment of the Non-U.S. Holder), in which case the Non-U.S. Holder will be subject to tax on the net gain from the sale at regular graduated U.S. federal income tax rates, and if the Non-U.S. Holder is a corporation, may be subject to an additional U.S. branch profits tax at a gross rate equal to 30% of its effectively connected earnings and profits for that taxable year, subject to any exemption or lower rate as may be specified by an applicable income tax treaty;

- the Non-U.S. Holder is an individual who is present in the U.S. for 183 days or more in the taxable year of disposition and certain other conditions are met, in which case the Non-U.S. Holder will be subject to a 30% tax on the gain from the sale, which may be offset by U.S. source capital losses; or

- we are or have been a "United States real property holding corporation" ("USRPHC") for U.S. federal income tax purposes at any time during the shorter of the Non-U.S. Holder's holding period or the 5-year period ending on the date of disposition of Shares, Common Stock or Warrants; provided, with respect to the Shares, Common Stock or Warrants, that as long as Common Stock is regularly traded on an established securities market as determined under the Treasury Regulations (the "Regularly Traded Exception"), a Non-U.S. Holder would not be subject to taxation on the gain on the sale of Shares, Common Stock or Warrants under this rule unless the Non-U.S. Holder has owned more than 5% of Common Stock at any time during such 5-year or shorter period (a "5% Shareholder"). In determining whether a Non-U.S. Holder is a 5% Shareholder, such holder's Warrants may be included in such determination. In addition, certain attribution rules apply in determining ownership for this purpose. While the Shares and Common Stock will be listed on the NYSE MKT and therefore may satisfy the Regularly Traded Exception, since the Warrants are not expected to be listed on a securities market, the Warrants are unlikely to qualify for the Regularly Traded Exception. Non-U.S. Holders should be aware that we have made no determination as to whether we are or have been a USRPHC, and we can provide no assurances that we are not and will not become a USRPHC in the future. In addition, in the event that we are or become a USRPHC, we can provide no assurances that the Shares, Common Stock or Warrants will meet the Regularly Traded Exception at the time a Non-U.S. Holder purchases such securities or sells, exchanges or otherwise disposes of such securities. Non-U.S. Holders should consult with their own tax advisors regarding the consequences to them of investing in a USRPHC. As a USRPHC, a Non-U.S. Holder will be taxed as if any gain or loss were effectively connected with the conduct of a trade or business as described above in "Dividends" in the event that (i) such holder is a 5% Shareholder, or (ii) the Regularly Traded Exception is not satisfied during the relevant period.

Information Reporting and Backup Withholding

Generally, we must report annually to the IRS and to Non-U.S. Holders the amount of cash dividends paid on the Shares and Common Stock to Non-U.S. Holders and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which a Non-U.S. Holder resides under the provisions of an applicable income tax treaty.

In general, a Non-U.S. Holder will not be subject to backup withholding with respect to payments of dividends that we make, provided we receive a statement meeting certain requirements to the effect that the Non-U.S. Holder is not a U.S. person and we do not have actual knowledge or reason to know that the holder is a U.S. person, as defined under the Code, that is not an exempt recipient. The requirements for the statement will be met if (1) the Non-U.S. Holder provides its name, address and U.S. taxpayer identification number, if any, and certifies, under penalty of perjury, that it is not a U.S. person (which certification may be made on IRS Form W-8BEN or W-8BEN-E, as applicable) or (2) a financial institution holding the instrument on behalf of the Non-U.S. Holder certifies, under penalty of perjury, that such statement has been received by it and furnishes us or our paying agent with a copy of the statement. In addition, a Non-U.S. Holder will be subject to information reporting and, depending on the circumstances, backup withholding with respect to payments of the proceeds of a sale of Shares, Common Stock and Warrants within the U.S. or conducted through certain U.S.-related financial intermediaries, unless the statement described above has been received, and we do not have actual knowledge or reason to know that a holder is a U.S. person, as defined under the Code, that is not an exempt recipient, or the Non-U.S. Holder otherwise establishes an exemption. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a Non-U.S. Holder's U.S. federal income tax liability, if any, provided the required information is furnished in a timely manner to the IRS.

Rules Relating to Foreign Accounts

Generally, we will be required to withhold tax at a rate of 30% on dividends in respect of Shares and Common Stock, and gross proceeds from the sale of Shares, Common Stock or Warrants held by or through certain foreign entities, in the case of dividends, and beginning after December 31, 2018, in the case of such gross proceeds, unless such entity is in compliance with its obligations under the Foreign Account Tax Compliance Act, or "FATCA."

DESCRIPTION OF SECURITIES

We have 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 5,000,000 are shares of "blank check" preferred stock. On June 24, 2016, there were 10,701,320 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding. We currently have 20,000 shares of preferred stock designated as Series A Preferred Stock and will have shares of preferred stock designated as Series B Convertible Preferred Stock. The authorized and unissued shares of common stock and the authorized and undesignated shares of preferred stock are available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange on which our securities may be listed. Unless approval of our stockholders is so required, our board of directors does not intend to seek stockholder approval for the issuance and sale of our common stock or preferred stock.

Common Stock

The holders of our common stock are entitled to one vote per share. Our certificate of incorporation does not provide for cumulative voting. Our directors are divided into three classes. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire are elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. The holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of legally available funds; however, the current policy of our board of directors is to retain earnings, if any, for operations and growth. Upon liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all assets that are legally available for distribution. The holders of our common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of any series of preferred stock, which may be designated solely by action of our board of directors and issued in the future.

The transfer agent and registrar for our common stock is Action Stock Transfer Corp. The transfer agent's address is 2469 E. Fort Union Blvd., Suite 214, Salt Lake City, Utah 84121. Our common stock is listed on the NYSE MKT under the symbol "NSPR."

Preferred Stock

The board of directors is authorized, subject to any limitations prescribed by law, without further vote or action by the stockholders, to issue from time to time shares of preferred stock in one or more series. Each such series of preferred stock shall have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights. Issuance of preferred stock by our board of directors may result in such shares having dividend and/or liquidation preferences senior to the rights of the holders of our common stock and could dilute the voting rights of the holders of our common stock.

Prior to the issuance of shares of each series of preferred stock, the board of directors is required by the Delaware General Corporation Law and our certificate of incorporation to adopt resolutions and file a certificate of designation with the Secretary of State of the State of Delaware. The certificate of designation fixes for each class or series the designations, powers, preferences, rights, qualifications, limitations and restrictions, including, but not limited to, some or all of the following:

- the number of shares constituting that series and the distinctive designation of that series, which number may be increased or decreased (but not below the number of shares then outstanding) from time to time by action of the board of directors;
- the dividend rate and the manner and frequency of payment of dividends on the shares of that series, whether dividends will be cumulative, and, if so, from which date;
- whether that series will have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights;
- whether that series will have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the board of directors may determine;

- whether or not the shares of that series will be redeemable, and, if so, the terms and conditions of such redemption;
- whether that series will have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;
- whether or not the shares of the series will have priority over or be on a parity with or be junior to the shares of any other series or class in any respect;
- the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation, and the relative rights or priority, if any, of payment of shares of that series; and
- any other relative rights, preferences and limitations of that series.

Once designated by our board of directors, each series of preferred stock may have specific financial and other terms.

Series B Convertible Preferred Stock Being Issued in this Offering

The following summary of certain terms and provisions of the Preferred Stock offered in this offering is subject to, and qualified in its entirety by reference to, the terms and provisions set forth in our certificate of designation of preferences, rights and limitations of the Preferred Stock, which has been filed as an exhibit to the registration statement of which this prospectus is a part.

Our Preferred Stock is convertible into shares of our common stock (subject to the beneficial ownership limitations as provided in the related certificate of designation of preferences), at a conversion price equal to $ per share of common stock, subject to adjustment as provided in the certificate of designation, at any time at the option of the holder prior to the fifth anniversary of the date of issuance, at which time all shares of outstanding Preferred Stock shall automatically and without any further action by the holder be converted into shares of our common stock at the then effective conversion price, provided that the holder will be prohibited from converting Preferred Stock into shares of our common stock if, as a result of such conversion, the holder, together with its affiliates, would own more than 4.99% of the total number of shares of our common stock then issued and outstanding. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99%, provided that any increase in such percentage shall not be effective until 61 days after such notice to us.

The holders of Preferred Stock will be 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 Preferred Stock. The dividends become payable, at our option, in either cash, out of any funds legally available for such purpose, or in shares of common stock, (i) upon any conversion of the Preferred Stock, (ii) on each such other date as our board of directors may determine, subject to written consent of the holders of Preferred Stock holding a majority of the then issued and outstanding Preferred Stock, (iii) upon our liquidation, dissolution or winding up, and (iv) upon occurrence of a fundamental transaction, including any merger or consolidation, sale of all or substantially all of our assets, exchange or conversion of all of our common stock by tender offer, exchange offer or reclassification; provided, however, that if Preferred Stock is converted into shares of common stock at any time prior to the fifth anniversary of the date of issuance of the Preferred Stock, the holder will receive a make-whole payment in an amount equal to all of the dividends that, but for the early conversion, would have otherwise accrued on the applicable shares of Preferred Stock being converted for the period commencing on the conversion date and ending on the fifth anniversary of the date of issuance, less the amount of all prior dividends paid on such converted Preferred Stock before the date of conversion. Make-whole payments are payable at our option in either cash, out of any funds legally available for such purpose, or in shares of common stock. Our loan and security agreement with Hercules Capital, Inc., dated October 23, 2013, as amended, prohibits us from paying cash dividends or distributions on our capital stock.

With respect to any dividend payments and make-whole payments paid in shares of common stock, the number of shares of common stock to be issued to a holder of Preferred Stock will be an amount equal to the quotient of (i) the amount of the dividend payable to such holder divided by (ii) the conversion price then in effect.

The Preferred Stock, to the extent that it has not been converted previously, is subject to full ratchet anti-dilution price protection upon the issuance of equity or equity-linked securities at an effective common stock purchase price of less than the conversion price then in effect, subject to adjustment as provided in the certificate of designation.

In the event of our liquidation, dissolution, or winding up, holders of our Preferred Stock will be entitled to receive the amount of cash, securities or other property to which such holder would be entitled to receive with respect to such shares of Preferred Stock if such shares had been converted to common stock immediately prior to such event (without giving effect for such purposes to the 4.99% or 9.99% beneficial ownership limitation, as applicable) subject to the preferential rights of holders of any class or series of our capital stock specifically ranking by its terms senior to the Preferred Stock as to distributions of assets upon such event, whether voluntarily or involuntarily.

The holders of the Preferred Stock have no voting rights, except as required by law. Any amendment to our certificate of incorporation, bylaws or certificate of designation that adversely affects the powers, preferences and rights of the Preferred Stock requires the approval of the holders of a majority of the shares of Preferred Stock then outstanding.

The Preferred Stock will not be listed on the NYSE MKT or any other exchange or trading market. We do not plan on making an application to list the Preferred Stock on the NYSE MKT, any other national securities exchange or any other nationally recognized trading system. The common stock issuable upon conversion of the Preferred Stock is listed on the NYSE MKT under the symbol “NSPR.”

Shares of Preferred Stock will be issued in book-entry form under a transfer agency and service agreement between Action Stock Transfer Corp., as transfer agent, and us, and shall initially be represented by one or more book-entry certificates deposited with DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC.

The transfer agent and registrar for our Preferred Stock is Action Stock Transfer Corp. The transfer agent's address is 2469 E. Fort Union Blvd., Suite 214, Salt Lake City, Utah 84121.

You should review a copy of the certificate of designation of the Preferred Stock, which has been filed as an exhibit to the registration statement of which this prospectus is a part, for a complete description of the terms and conditions of the Preferred Stock.

Warrants Being Issued in this Offering

The following is a brief summary of certain terms and conditions of the warrants and is subject in all respects to the provisions contained in the warrants being issued in this offering.

Form. The warrants will be issued in book-entry form under a warrant agent agreement between Action Stock Transfer Corp., as warrant agent, and us, and shall initially be represented by one or more book-entry certificates deposited with DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC. You should review a copy of the form of warrant, which is attached as an exhibit to the registration statement of which this prospectus forms a part, for a complete description of the terms and conditions of the warrants.

Exercisability. The warrants are exercisable at any time after the date of issuance, and at any time up to the date that is 60 months from the date of issuance, at which time any unexercised warrants will expire and cease to be exercisable. The warrants will be exercisable, at the option of each holder, in whole or in part by delivering to us a duly executed exercise notice and by payment in full in immediately available funds for the number of shares of common stock purchased upon such exercise. If a registration statement registering the issuance of the shares of common stock underlying the warrants under the Securities Act of 1933, as amended, is not then effective or available, the holder may exercise the warrant through a cashless exercise, in whole or in part, in which case the holder would receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. No fractional shares of common stock will be issued in connection with the exercise of a warrant. In lieu of fractional shares, we will either pay the holder an amount in cash equal to the fractional amount multiplied by the exercise price or round up to the next whole share.

Exercise Limitation. A holder will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of shares of our stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99%, provided that any increase in such percentage shall not be effective until 61 days after such notice to us.

Exercise Price; Anti-Dilution. The initial exercise price per share of common stock purchasable upon exercise of the warrants is $ per share of common stock. The exercise price is subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock.

Transferability. Subject to applicable laws, the warrants may be offered for sale, sold, transferred or assigned without our consent. There is currently no trading market for the warrants and a trading market is not expected to develop.

Exchange Listing. Following completion of this offering, we intend to apply to list the warrants on the NYSE MKT. No assurance can be given that such listing will be approved.

Fundamental Transactions. In the event of a fundamental transaction, as described in the warrants and generally including any reorganization, recapitalization or reclassification of our common stock, the sale, transfer or other disposition of all or substantially all of our properties or assets, our consolidation or merger with or into another person, the holders of the warrants will be entitled to receive upon exercise of the warrants the kind and amount of securities, cash or other property that the holders would have received had they exercised the warrants immediately prior to such fundamental transaction.

Rights as a Stockholder. Except as otherwise provided in the warrants or by virtue of such holder's ownership of shares of our common stock, the holder of a warrant does not have the rights or privileges of a holder of our common stock, including any voting rights, until the holder exercises the warrant.

We, with the consent of the warrant holders holding all of the then outstanding warrants, may increase the exercise price, shorten the expiration date and amend all other warrant terms. We may lower the exercise price or extend the expiration date without the consent of investors.

You should review a copy of the warrant agent agreement and the form of warrant, each of which has been filed as an exhibit to the registration statement of which this prospectus is a part, for a complete description of the terms and conditions of the warrants and the warrant agent agreement.

This prospectus also relates to the offering of the placement agent's warrants and of the shares of our common stock issuable upon exercise, if any, of such warrants. See "Plan of Distribution" section below for more information.

Other Warrants

June 2016 Warrant Agreement

On June 13, 2016, in connection with an amendment entered into on June 13, 2016, to the Loan and Security Agreement, dated October 23, 2013, between us and Hercules Capital, Inc. (formerly Hercules Technology Growth Capital, Inc.), we issued Hercules Capital, Inc. a warrant to purchase up to the number of shares of common stock equal to $182,399.30, divided by (i) the lowest effective price per share, determined on a common stock-equivalent basis, for which our equity securities are sold and issued by us in an equity financing in which we receive unrestricted aggregate gross cash proceeds of at least $7.5 million, subject to adjustment from time to time in accordance with the terms of the warrant agreement, or (ii) if such equity financing shall not have been consummated on or before July 30, 2016, or if, prior to the consummation of such equity financing, there shall be a transaction involving a change of control or our dissolution, liquidation or winding-up, then the closing price of our common stock on June 13, 2016, subject to adjustment thereafter from time to time in accordance with the terms of the warrant agreement. The warrant is immediately exercisable and have a five year term. The warrant may also be exercised on a cashless basis according to the formula set forth in the warrant agreement. The exercise price of the warrant and the number of shares issuable upon exercise of the warrant are subject to adjustments for stock splits, combinations or similar events. Upon the occurrence of a transaction involving a change of control in which the consideration is either all cash or securities that are either registered for sale on an exchange or quotation system or otherwise unrestricted, the warrant, to the extent not previously exercised, may be exchanged, at the holder’s request, for the consideration the holder would have received as if it had exercised the warrant immediately prior to the change of control. For all other changes of control, the warrant will be assumed by the successor or surviving entity with similar rights to the warrant, and thereafter the warrant shall be exercisable for the same number and type of securities or other property as if the warrants had been exercised in full immediately prior to the change of control. To the extent this warrant is not previously exercised, and if the then-current fair market value of one share of common stock is greater than the exercise price then in effect, or, in the case of a transaction involving a change of control in which the consideration is either all cash or securities that are either registered for sale on an exchange or quotation system or otherwise unrestricted, where the value per share of common stock (as determined as of the closing of such transaction) to be paid to the holders thereof is greater than the exercise price then in effect, the warrant shall be deemed automatically exercised via cashless exercise as of immediately before its expiration.

The warrant contains “piggyback” registration rights for the shares of common stock underlying the warrant that, if we, at any time and from time to time on or after the issuance and on or before the expiration or earlier termination of the warrant, propose to register under the Securities Act of 1933, as amended, any shares of common stock held by one or more stockholders of us for resale by such stockholders, whether on a Form S-3 registration statement or otherwise, we shall give written notice thereof to Hercules Capital, Inc. and permit Hercules Capital, Inc. to include any or all of the shares of common stock issuable upon exercise of the warrant (and any or all shares previously issued to Hercules Capital, Inc. upon any prior exercise(s)) in such registration on a pari passu basis with such other stockholder(s) and on the same terms and conditions applicable to such other stockholder(s).

March 2016 $0.59 Warrants

On March 21, 2016, we issued certain investors in an underwritten public offering warrants to purchase up to an aggregate of 950,000 shares of our common stock at an exercise price of $0.59 per share and certain of our directors in a concurrent private placement warrants to purchase up to an aggregate of 516,526 shares of our common stock at an exercise price of $0.59 per share. The warrants are exercisable immediately and have a term of exercise of five years from the date of issuance. A holder will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of shares of our stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99%, provided that any increase in such percentage shall not be effective until 61 days after such notice to us. The warrants contain provisions that protect their holders against dilution by adjustment of the purchase price in certain events such as stock dividends and distributions, stock splits, stock combinations, reclassifications and other similar events. If a registration statement registering the issuance of the shares of common stock underlying the warrants under the Securities Act of 1933, as amended, is not then effective or available, the holder may exercise the warrant through a cashless exercise, in whole or in part, in which case the holder would receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. If while the warrants are outstanding, we declare or make any dividend or other distribution of our assets to holders of shares of common stock, then any holder of the warrants shall, upon exercise, have the right to participate in such distribution as if it had exercised the warrants immediately before the date on which a record is taken for such distribution, or, if no such record is taken, the date as of which the record holders of shares of common stock are to be determined for the participation in such distribution, subject to certain limitations. In the event of a fundamental transaction, as described in the warrants and generally including any reorganization, recapitalization or reclassification of our common stock, the sale, transfer or other disposition of all or substantially all of our properties or assets, our consolidation or merger with or into another person, the holders of the warrants will be entitled to receive upon exercise of the warrants the kind and amount of securities, cash or other property that the holders would have received had they exercised the warrants immediately prior to such fundamental transaction.

March 2016 Underwriter Warrant and Registration Right

In connection with the underwritten public offering in March 2016, on March 21, 2016, we issued Dawson James Securities, Inc. a five-year warrant to purchase up to 95,000 shares of common stock at an exercise price of $0.7375 per share. The underwriter warrant is exercisable at any time and from time to time, in whole or in part, during the period commencing six months following the date of issuance and ending five years from March 16, 2016. The underwriter warrant may be exercised through a cashless exercise, in whole or in part, in which case the Dawson James Securities, Inc. would receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. Dawson James Securities, Inc. has the right to include the shares of common stock underlying the underwriter warrant as part of any other registration of securities we file, subject to certain marketing and other limitations. This “piggyback” registration rights terminate on March 16, 2021. The warrants contain provisions that protect their holders against dilution by adjustment of the purchase price in certain events such as stock dividends, stock splits and other similar events. In case of any reclassification or reorganization of the outstanding shares of common stock other than the foregoing, or in the case of any share reconstruction or amalgamation or consolidation of us with or into another corporation, or in the case of any sale or conveyance to another corporation or entity of our property as an entirety or substantially as an entirety in connection with which we are dissolved, Dawson James Securities, Inc. will have the right to receive upon exercise of the underwriter warrant, the kind and amount of shares of stock or other securities or property receivable upon such reclassification, reorganization, share reconstruction or amalgamation, or consolidation, or upon a dissolution following any such sale or transfer, by a holder of the number of shares of our common stock obtainable upon exercise of the underwriter's warrant immediately prior to such event. Dawson James Securities, Inc. agreed that at any time prior to the complete exercise of the underwriter warrant, if we and Dawson James Securities, Inc. enter into an agreement pursuant to which the parties agree that the outstanding underwriter warrant will be exchanged for securities or cash or a combination of both, then it will agree to such exchange and become a party to such agreement.

March 2016 Placement Agent Warrant and Registration Right

In connection with the private placement in March 2016, on March 21, 2016, we issued Dawson James Securities, Inc. a five-year warrant to purchase up to 51,653 shares of common stock at an exercise price of $0.7375 per share. The placement agent warrants are exercisable at any time and from time to time, in whole or in part, during the period commencing six months following the date of issuance and ending five years from the date of issuance. The terms of this warrant are identical to the March 2016 underwriter warrant described above.

March 2015 $5.50 Warrants

On March 9, 2015, we issued certain investors in a public offering warrants to purchase up to an aggregate of 3,436,970 shares of our common stock at an exercise price of $5.50 per share. The warrants are exercisable immediately and have a term of exercise of five years from the date of issuance. A holder will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of shares of our stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99%, provided that any increase in such percentage shall not be effective until 61 days after such notice to us. The exercise price is subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock. If a registration statement registering the issuance of the shares of common stock underlying the warrants under the Securities Act of 1933, as amended, is not then effective or available, the holder may exercise the warrant through a cashless exercise, in whole or in part, in which case the holder would receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. Notwithstanding the foregoing, on the termination date of this warrant, the warrant will be automatically exercised via cashless exercise. If while the warrants are outstanding, we declare or make any dividend or other distribution of our assets to holders of shares of common stock, then any holder of the warrants shall have the right to participate in such distribution as if it had completely exercised the warrants immediately before the date on which a record is taken for such distribution, or, if no such record is taken, the date as of which the record holders of shares of common stock are to be determined for the participation in such distribution. In the event of a fundamental transaction, as described in the warrants and generally including any reorganization, recapitalization or reclassification of our common stock, the sale, transfer or other disposition of all or substantially all of our properties or assets, our consolidation or merger with or into another person, the holders of the warrants will be entitled to receive upon exercise of the warrants the kind and amount of securities, cash or other property that the holders would have received had they exercised the warrants immediately prior to such fundamental transaction.

November 2014 $17.50 Warrants

On November 7, 2014, we issued certain investors in a public offering warrants to purchase up to an aggregate of 313,100 shares of our common stock at an exercise price of $17.50 per share. The warrants are exercisable at any time after six months after the date of issuance, and at any time up to the date that is 42 months from the date of issuance. A holder will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of shares of our stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants. However, any holder may increase or decrease such percentage to any other percentage not in excess of 9.99%, provided that any increase in such percentage shall not be effective until 61 days after such notice to us. The exercise price is subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock. If a registration statement registering the issuance of the shares of common stock underlying the warrants under the Securities Act of 1933, as amended, is not then effective or available, the holder may exercise the warrant through a cashless exercise, in whole or in part, in which case the holder would receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. Notwithstanding the foregoing, on the termination date of this warrant, the warrant will be automatically exercised via cashless exercise. If while the warrants are outstanding, we declare or make any dividend or other distribution of our assets to holders of shares of common stock, then any holder of the warrants shall have the right to participate in such distribution as if it had completely exercised the warrants immediately before the date on which a record is taken for such distribution, or, if no such record is taken, the date as of which the record holders of shares of common stock are to be determined for the participation in such distribution. In the event of a fundamental transaction, as described in the warrants and generally including any reorganization, recapitalization or reclassification of our common stock, the sale, transfer or other disposition of all or substantially all of our properties or assets, our consolidation or merger with or into another person, the holders of the warrants will be entitled to receive upon exercise of the warrants the kind and amount of securities, cash or other property that the holders would have received had they exercised the warrants immediately prior to such fundamental transaction.

October 2013 $29.70 Warrant and Registration Rights

On October 23, 2013, in connection with that certain Loan and Security Agreement, dated October 23, 2013, between us and Hercules Capital, Inc. (formerly Hercules Technology Growth Capital, Inc.), we issued Hercules Capital, Inc. a warrant to purchase 16,836 shares of our common stock at an exercise price of $29.70 per share. The warrant is immediately exercisable and have a five year term. The warrant may also be exercised on a cashless basis according to the formula set forth in the warrant. The exercise price of the warrant and the number of shares issuable upon exercise of the warrant are subject to adjustments for stock splits, combinations or similar events. Upon the occurrence of a transaction involving a change of control in which the consideration is either all cash or securities that are either registered for sale on an exchange or quotation system or otherwise unrestricted, the warrant, to the extent not previously exercised, may be exchanged, at the holder's request, for the consideration the holder would have received as if it had exercised the warrant immediately prior to the change of control. For all other changes of control, the warrant will be assumed by the successor or surviving entity with similar rights to the warrant, and thereafter the warrant shall be exercisable for the same number and type of securities or other property as if the warrant had been exercised in full immediately prior to the change of control. To the extent this warrant is not previously exercised, and if the then-current fair market value of one share of common stock is greater than the exercise price then in effect, or, in the case of a transaction involving a change of control in which the consideration is either all cash or securities that are either registered for sale on an exchange or quotation system or otherwise unrestricted, where the value per share of common stock (as determined as of the closing of such transaction) to be paid to the holders thereof is greater than the exercise price then in effect, the warrant shall be deemed automatically exercised via cashless exercise as of immediately before its expiration.

The warrant contains "piggyback" registration rights for the shares of common stock underlying the warrant that, if we, at any time and from time to time on or after the issuance and on or before the expiration or earlier termination of the warrant, propose to register under the Securities Act of 1933, as amended, any shares of common stock held by one or more stockholders of us for resale by such stockholders, whether on a Form S-3 registration statement or otherwise, we shall give written notice thereof to Hercules Capital, Inc. and permit Hercules Capital, Inc. to include any or all of the shares of common stock issuable upon exercise of the warrant (and any or all shares previously issued to Hercules Capital, Inc. upon any prior exercise(s)) in such registration on a pari passu basis with such other stockholder(s) and on the same terms and conditions applicable to such other stockholder(s).

April 2013 $30.00 Warrants

On April 16, 2013, we issued certain holders of our then outstanding convertible debentures warrants to purchase up to an aggregate of 65,912 shares of our common stock at an exercise price of $30.00 per share. We are prohibited from effecting the exercise of any such warrant to the extent that as a result of such exercise the holder of the exercised warrant beneficially owns more than 4.99% in the aggregate of the issued and outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of our common stock upon the exercise of the warrant (subject to an increase, upon at least 61 days' notice by the holder of such warrant to us, of up to 9.99%).

The warrants contain provisions that protect their holders against dilution by adjustment of the purchase price in certain events such as stock dividends, stock splits and other similar events. If there is no effective registration statement registering, or no current prospectus available for, the resale of the shares of common stock underlying the warrants at the time of exercise of the warrants, the holders of such warrants have the right to exercise the warrants by means of a cashless exercise. Notwithstanding the foregoing, if the last sale price of the common stock on the principal trading market on the trading day immediately preceding the termination date of the warrant is greater than the exercise price, at our election, this warrant shall either be (i) automatically exercised via cashless exercise as of the termination date or (ii) exercised via a cash exercise in accordance with the terms of the warrant. In addition, upon the occurrence of a transaction involving a change of control that is (i) an all cash transaction, (ii) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Securities Exchange Act of 1934, as amended, or (iii) involving a person or entity not traded on a national securities exchange, the holders of the warrants will have the right, among others, to have the warrants repurchased in exchange for issuance of a number of shares of common stock equal to a fraction of (i) the numerator of which is the Black Scholes value (as calculated pursuant to the warrants) of the remaining unexercised portion of the warrant, and (ii) the denominator of which is the sum of the price per share being offered in cash, if any, plus the value of any non-cash consideration, if any, being offered in such fundamental transaction. If while the warrants are outstanding, we issue any evidences of indebtedness, assets, rights or warrants to subscribe for or purchase any security of the company, then any holder of the warrants shall, upon exercise, have the right to acquire the same securities as if it had exercised the warrants immediately before the date on which a record is taken for such distribution, or, if no such record is taken, the date as of which the record holders of shares of common stock are to be determined for the participation in such distribution. The warrants expire on April 16, 2018.

April 2012 $72.00 Warrants

On April 5, 2012, we issued certain investors warrants to purchase an aggregate of 83,587 shares of our common stock at an exercise price of $72.00 per share. We are prohibited from effecting the exercise of any such warrant to the extent that as a result of such exercise the holder of the exercised warrant beneficially owns more than 4.99% in the aggregate of the issued and outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of our common stock upon the exercise of the warrant (subject to an increase, upon at least 61 days' notice by the holder of such warrant to us, of up to 9.99%). The warrants contain provisions that protect their holders against dilution by adjustment of the purchase price in certain events such as stock dividends, stock splits and other similar events. If at any time after 60 days following the date of issuance of the warrants there is no effective registration statement registering, or no current prospectus available for, the resale of the shares of common stock underlying the warrants, the holders of such warrants have the right to exercise the warrants by means of a cashless exercise. Notwithstanding the foregoing, if the last sale price of the common stock on the principal trading market on the trading day immediately preceding the termination date of the warrant is greater than the exercise price, at our election, this warrant shall either be (i) automatically exercised via cashless exercise as of the termination date or (ii) exercised via a cash exercise in accordance with the terms of the warrant.

In addition, upon the occurrence of a transaction involving a change of control that is (i) an all cash transaction, (ii) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Securities Exchange Act of 1934, as amended, or (iii) involving a person or entity not traded on a national securities exchange, the holders of the warrants will have the right, among others, to have the warrants repurchased in exchange for issuance of a number of shares of common stock equal to a fraction of (i) the numerator of which is the Black Scholes value (as calculated pursuant to the warrants) of the remaining unexercised portion of the warrant, and (ii) the denominator of which is the sum of the price per share being offered in cash, if any, plus the value of any non-cash consideration, if any, being offered in such fundamental transaction. If while the warrants are outstanding, we issue any evidences of indebtedness, assets, rights or warrants to subscribe for or purchase any security of the company, then any holder of the warrants shall, upon exercise, have the right to acquire the same securities as if it had exercised the warrants immediately before the date on which a record is taken for such distribution, or, if no such record is taken, the date as of which the record holders of shares of common stock are to be determined for the participation in such distribution. The warrants expire on April 5, 2017.

April 2012 Placement Agent Warrants

As consideration for serving as our placement agents in connection with certain private placements, on April 5, 2012, we issued Palladium Capital Advisors, LLC a five-year warrant to purchase up to 3,990 shares of common stock at an exercise price of $72.00 per share, Oppenheimer & Co. Inc. a five-year warrant to purchase up to 2,827 shares of common stock at an exercise price of $72.00 per share and JMP Securities LLC a five-year warrant to purchase up to 992 shares of common stock at an exercise price of $72.00 per share. The terms of these warrants are identical to the April 2012 $72.00 Warrants described above.

Delaware Anti-Takeover Law, Provisions of our Certificate of Incorporation and Bylaws

Delaware Anti-Takeover Law

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:

- 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;

- 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 (i) shares owned by persons who are directors and also officers and (ii) 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

- 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.

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Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with, or controlling, or controlled by, the entity or person. The term "owner" is broadly defined to include any person that, individually, with or through that person's affiliates or associates, among other things, beneficially owns the stock, or has the right to acquire the stock, whether or not the right is immediately exercisable, under any agreement or understanding or upon the exercise of warrants or options or otherwise or has the right to vote the stock under any agreement or understanding, or has an agreement or understanding with the beneficial owner of the stock for the purpose of acquiring, holding, voting or disposing of the stock.

The restrictions in Section 203 do not apply to corporations that have elected, in the manner provided in Section 203, not to be subject to Section 203 of the Delaware General Corporation Law or, with certain exceptions, which do not have a class of voting stock that is listed on a national securities exchange or held of record by more than 2,000 stockholders. Our certificate of incorporation and bylaws do not opt out of Section 203.

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.

Certificate of Incorporation and Bylaws

Provisions of our certificate of incorporation and bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our common stock. Among other things, our certificate of incorporation and bylaws:

- permit our board of directors to issue up to 5,000,000 shares of preferred stock, without further action by the stockholders, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in control;
- provide that the authorized number of directors may be changed only by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- divide our board of directors into three classes, with each class serving staggered three-year terms;
- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose);
- provide that special meetings of our stockholders may be called only by our board of directors; and
- set forth an advance notice procedure with regard to the nomination, other than by or at the direction of our board of directors, of candidates for election as directors and with regard to business to be brought before a meeting of stockholders.

PLAN OF DISTRIBUTION

Placement Agency Agreement

In connection with this offering, we will enter into a placement agency agreement with Dawson James Securities, Inc., pursuant to which Dawson James Securities, Inc. will agree to act as our exclusive placement agent on a best efforts basis in connection with the sale of our securities. The placement agent has no obligation to purchase or sell any securities offered by us under this prospectus for its own account or to arrange the purchase or sale of any specific number or dollar amount of the securities, but the placement agent will agree to act as our agent and to use its reasonable best efforts to arrange for the sale of all of the securities in this offering. Affiliates and associated persons of Dawson James Securities, Inc. may invest in this offering on the same terms and conditions as the public investors participating in this offering.

The placement agency agreement will provide that the obligations of the placement agent are subject to certain conditions precedent, including, among other things, the absence of any material adverse change in our business and the receipt of customary legal opinions, letters and certificates. In addition, we will make certain representations and warranties in the placement agency agreement and we will agree to certain covenants in the placement agent agreement.

Upon closing, we will deliver to each purchaser delivering funds the number of shares of preferred stock and warrants purchased by such purchaser in electronic format.

Fees and Expenses

We will pay the placement agent a fee equal to 9% of the gross proceeds of the offering. We have also agreed to reimburse the placement agent for its expenses in connection with this offering, up to $25,000, and have agreed to reimburse the placement agent for its reasonable “blue sky” fees and expenses, of $25,000.

We estimate the total expenses of this offering, excluding the placement agent fees, will be approximately $230,000. Because there is no minimum offering amount required as a condition to closing in this offering, the actual offering amount, placement agent fees and proceeds to us, if any, in this offering may be substantially less than the maximum offering amounts set forth in this prospectus.

We have also agreed to issue to the placement agent a unit purchase option to purchase a number of our securities equal to an aggregate of 3.5% of the securities sold in this offering. The placement agent unit purchase option will have an exercise price equal to 125% of the public offering price of the securities set forth on the cover of this prospectus and may be exercised on a cashless basis. The placement agent unit purchase option is not redeemable by us. This prospectus also covers the sale of the placement agent unit purchase option and the securities underlying the units. The placement agent unit purchase option and the underlying securities have been deemed compensation by FINRA, and are therefore subject to FINRA Rule 5110(g)(1). In accordance with FINRA Rule 5110(g)(1), neither the placement agent unit purchase option nor any securities underlying such unit purchase option may be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of such securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of the offering pursuant to which the placement agent unit purchase option is being issued, except the transfer of any security:

- by operation of law or by reason of reorganization of our company;
- to any FINRA member firm participating in this offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction described above for the remainder of the time period;
- if the aggregate amount of our securities held by either a placement agent or a related person do not exceed 1% of the securities being offered;
- that is beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund, and participating members in the aggregate do not own more than 10% of the equity in the fund; or
- the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction set forth above for the remainder of the time period.

Although the unit purchase option and the underlying securities have been registered on the registration statement of which this prospectus forms a part, we have agreed to use commercially reasonable efforts to file a short-form registration statement on Form S-3 covering the resale of such underlying securities, on one occasion only upon request by the placement agent, within 30 days after we become eligible to use such Form S-3. These registration rights shall expire on the fifth anniversary of the effective date of the registration statement of which this prospectus forms a part.

Restriction on Sales of Capital Stock

The placement agency agreement will contain a restriction on sales of our capital stock by us, pursuant to which we will agree to not, for a period of 180 days after the date of the placement agency agreement, subject to certain exceptions, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, our capital stock or any securities convertible into or exercisable or exchangeable for our capital stock; (ii) file or cause to be filed any registration statement with the Securities and Exchange Commission relating to the offering of our capital stock or any securities convertible into or exercisable or exchangeable for our capital stock other than the filing of a Registration Statement on Form S-8; (iii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our capital stock, whether any such transaction described in clause (i), (ii) or (iii) above is to be settled by delivery of our capital stock or such other securities, in cash or otherwise; or (iv) publicly announce an intention to effect any transaction specified in clause (i), (ii) or (iii) above.

Other Matters

We have agreed to indemnify the placement agent and certain other persons against certain liabilities, including civil liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, to advance costs of defense incurred in respect of those liabilities, and to contribute to payments that the placement agent may be required to make in respect of those liabilities.

The placement agent has informed us that it will not engage in over-allotment, stabilizing transactions or syndicate covering transactions in connection with this offering.

This prospectus in electronic format may be made available on websites or through other online services maintained by the placement agent, or by its affiliates. Other than this prospectus in electronic format, the information on the placement agent’s website and any information contained in any other website maintained by the placement agent is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or the placement agent and should not be relied upon by investors.

From time to time, Dawson James Securities, Inc. may provide various investment banking and other financial services for us for which services they may in the future receive customary fees. Except for services provided in connection with this offering, Dawson James Securities, Inc. has not provided any investment banking or other financial services preceding the date of this prospectus and we do not expect to retain any placement agent to perform any investment banking or other financial services for at least 90 days after the date of this prospectus, except for the following:

- in March 2015, Dawson James Securities, Inc. served as a co-placement agent selected by H.C. Wainwright & Co., LLC, the lead placement agent, in connection with a public offering of 34,478,675 shares of our common stock and warrants to purchase 34,478,675 shares of our common stock. In connection with such offering, Dawson James Securities, Inc., together with H.C. Wainwright & Co., LLC, received placement agent fee equal to 8% of the aggregate gross proceeds of the offering;

- in March 2016, Dawson James Securities, Inc. served as an underwriter in connection with a public offering of 1,900,000 shares of our common stock and warrants to purchase up to 950,000 shares of our common stock. In connection with such offering, Dawson James Securities, Inc. received underwriting discounts of $89,680 and was issued underwriter's warrants to purchase 95,000 shares of our common stock at an exercise price of $0.7375 per share. In addition, we reimbursed Dawson James Securities, Inc. for $25,000 in expenses, and for its "blue sky" fees and expenses of $20,000; and

- in March 2016, Dawson James Securities, Inc. served as a placement agent in connection with a private offering of approximately $600,000 of our common stock and warrants on the same terms as the March 2016 public offering described above. In connection with such private placement, we agreed to pay a placement agent fee of 8% of the offering proceeds, to reimburse the placement agent for its expenses up to $25,000 and to issue the placement agent warrants to purchase up to 5% of the number of shares of common stock sold in the private placement at an exercise price per share equal to $0.7375.

LEGAL MATTERS

The validity of the securities offered by this prospectus will be passed upon for us by Haynes and Boone, LLP, New York, New York. Schiff Hardin LLP, Washington, DC, is acting as counsel for the placement agent in connection with the securities offered hereby.

EXPERTS

The financial statements as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015 included in this prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to the Company's ability to continue as a going concern as described in Note 1 to the financial statements) of Kesselman & Kesselman, an independent registered public accounting firm and a member firm of PricewaterhouseCoopers International Limited, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be read and copied at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.W., Washington, D.C. 20549, on official business days during the hours of 10:00 am to 3:00 pm. Please call the Securities and Exchange Commission at 1-800-732-0330 for further information on the operation of the Public Reference Room. In addition, the Securities and Exchange Commission maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the Securities and Exchange Commission's website is *www.sec.gov*.

We make available free of charge on or through our website at *www.inspire-md.com*, our Annual Reports on Form 10-K, Transition Reports on Form 10-KT, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with or otherwise furnish it to the Securities and Exchange Commission.

We have filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, relating to the offering of these securities. The registration statement, including the attached exhibits, contains additional relevant information about us and the securities. This prospectus does not contain all of the information set forth in the registration statement. You can obtain a copy of the registration statement, at prescribed rates, from the Securities and Exchange Commission at the address listed above, or for free at www.sec.gov. The registration statement and the documents referred to below under “Incorporation of Certain Information By Reference” are also available on our website, *www.inspire-md.com*.

We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission allows us to "incorporate by reference" the information we have filed with it, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is an important part of this prospectus, and later information that we file with the Securities and Exchange Commission will automatically update and supersede this information. We incorporate by reference all documents (excluding information furnished pursuant to Items 2.02 and 7.01 of Form 8-K) we file with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this prospectus and prior to the termination of the offering shall be deemed to be incorporated by reference into the prospectus.

You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date of this prospectus or the date of the documents incorporated by reference in this prospectus.

We will provide without charge to each person to whom a copy of this prospectus is delivered, upon written or oral request, a copy of any or all of the reports or documents that have been incorporated by reference in this prospectus but not delivered with this prospectus (other than an exhibit to these filings, unless we have specifically incorporated that exhibit by reference in this prospectus). Any such request should be addressed to us at: 321 Columbus Avenue, Boston, Massachusetts 02116, Attention: Craig Shore, Chief Financial Officer, or made by phone at (857) 305-2410. You may also access the documents incorporated by reference in this prospectus through our website at *www.inspire-md.com*. Except for the specific incorporated documents listed above, no information available on or through our website shall be deemed to be incorporated in this prospectus or the registration statement of which it forms a part.

INSPIREMD, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

InspireMD, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, capital deficiency and cash flows present fairly, in all material respects, the financial position of InspireMD Inc. (the "Company") and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company has an accumulated deficit as of December 31, 2015, as well as net losses and negative operating cash flows in recent years. The Company's management expects to continue incurring losses and negative cash flows from operations until its products 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's management has determined that the Company does not have sufficient resources to fund operations beyond May, 2016. 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.

Tel-Aviv, Israel	/s/ Kesselman & Kesselman
March 28, 2016	Certified Public Accountants (Isr.)
	A member firm of PricewaterhouseCoopers International Limited

INSPIREMD, INC.

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands)

	December 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3,257	$6,300
Accounts receivable:		
Trade, net	405	635
Other	142	359
Prepaid expenses	75	150
Inventory	753	1,924
Total current assets	4,632	9,368
NON-CURRENT ASSETS:		
PROPERTY, PLANT AND EQUIPMENT, net	472	622
Deferred issuance costs	85	153
Fund in respect of employee rights upon retirement	502	498
Long-term prepaid expenses		66
Royalties buyout	87	752
Total non-current assets	1,146	2,091
Total assets	$5,778	$11,459

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INSPIREMD, INC.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2015	December 31, 2014
LIABILITIES NET OF CAPITAL DEFICIENCY		
CURRENT LIABILITIES:		
Accounts payable and accruals:		
Trade	$512	$909
Other	2,006	3,576
Advanced payment from customers	167	179
Current maturity of loan	4,234	3,809
Total current liabilities	6,919	8,473
LONG-TERM LIABILITIES:		
Liability for employees rights upon retirement	706	687
Long-term loan	1,099	5,086
Total long-term liabilities	1,805	5,773
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
Total liabilities	8,724	14,246
EQUITY (CAPITAL DEFICIENCY):		
Common stock, par value $0.0001 per share; 50,000,000 shares authorized; 7,676,074 and 4,136,852, shares issued and outstanding at December 31, 2015 and 2014, respectively	1	
Additional paid-in capital	120,049	104,624
Accumulated deficit	(122,996)	(107,411)
Total capital deficiency	(2,946)	(2,787)
Total liabilities net of capital deficiency	$5,778	$11,459

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

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INSPIREMD, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year Ended December 31,	
	2015	2014
REVENUES	$2,310	$2,818
COST OF REVENUES	2,606	2,034
GROSS PROFIT (LOSS)	(296)	784
OPERATING EXPENSES:		
Research and development	3,642	8,744
Selling and marketing	3,178	6,613
General and administrative	6,387	9,125
Restructuring and impairment	982	
Total operating expenses	14,189	24,482
LOSS FROM OPERATIONS	(14,485)	(23,698)
FINANCIAL EXPENSES, net:		
Interest expenses	1,036	1,409
Other financial expenses (income)	60	(24)
Total financial expenses	1,096	1,385
LOSS BEFORE TAX EXPENSES	(15,581)	(25,083)
TAX EXPENSES	4	12
NET LOSS	$(15,585)	$(25,095)
NET LOSS PER SHARE – basic and diluted	$(2.23)	$(7.09)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN COMPUTING NET LOSS PER SHARE – basic and diluted	6,976,378	3,539,364

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

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INSPIREMD, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Ordinary shares				
	Number of shares	Par value	Additional paid-in capital	Accumulated deficit	Total equity
		U.S. dollars in thousands, except share amounts			
BALANCE AT JANUARY 1, 2014	3,398,297	*	$ 90,956	$ (82,316)	$ 8,640
Net loss				(25,095)	(25,095)
Issuance of shares and warrants, including at the market offering, net of $881 issuance costs	725,927	*	9,645		9,645
Employee and non-employee share-based compensation expenses			4,138		4,138
Vesting of restricted stock	17,196	*			
Taxes withheld in respect of share issuance	(4,568)	*	(115)		(115)
BALANCE AT DECEMBER 31, 2014	4,136,852	*	$ 104,624	$ (107,411)	$ (2,787)
Net loss				(15,585)	(15,585)
Issuance of shares and warrants, net of $1,315 issuance costs	3,436,968	1	12,431		12,432
Employee and non-employee share-based compensation expenses			3,107		3,107
Vesting of restricted stock	141,834	*			
Taxes withheld in respect of share issuance	(39,580)	*	(113)		(113)
BALANCE AT DECEMBER 31, 2015	7,676,074	$1	$ 120,049	$ (122,996)	$ (2,946)

*Represents an amount less than $1

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

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INSPIREMD, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Year ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(15,585)	$(25,095)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	241	263
Impairment of royalties buyout	576	
Loss from sale of property, plant and equipment	14	
Change in liability for employees rights upon retirement	19	77
Financial expenses	249	350
Share-based compensation expenses	3,107	4,138
Loss (gains) on amounts funded in respect of employee rights upon retirement, net	3	(18)
Changes in operating asset and liability items:		
Decrease in prepaid expenses	141	39
Decrease in trade receivables	230	1,220
Decrease in other receivables	217	28
Decrease (increase) in inventory	1,171	(331)
Decrease in trade payables	(397)	(659)
Increase (decrease) in other payable and advanced payment from customers	(1,582)	626
Net cash used in operating activities	(11,596)	(19,362)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted cash		93
Purchase of property, plant and equipment	(16)	(133)
Amounts funded in respect of employee rights upon retirement, net	(7)	(46)
Net cash used in investing activities	(23)	(86)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of shares and warrants	12,432	9,535
Repayment of long-term loan	(3,702)	(1,148)
Taxes withheld in respect of share issuance	(113)	(115)
Net cash provided by financing activities	8,617	8,272
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(41)	(59)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,043)	(11,235)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,300	17,535
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	$3,257	$6,300
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes	$13	$14
Interest paid	$863	$1,082

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		
Anti-dilution rights	—	$110

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

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

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 coronary and vascular disease. MicroNet, a micron mesh sleeve, is wrapped over a stent to provide embolic protection in stenting procedures. In October 2014, the Company launched a limited market release of its carotid embolic prevention system (CGuard™ EPS), which combines MicroNet and a self-expandable nitinol stent in a single device to treat carotid artery disease. In January 2015, the Company received CE mark approval for the rapid exchange delivery system and launched CGuard in countries in Europe.

The Company's coronary products combining MicroNet and a bare-metal stent (MGuard Prime™ EPS) are 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 December 31, 2015, as well as 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™) 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 does not have sufficient resources to fund operations beyond May, 2016. 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.

c. Reverse stock split

On October 1, 2015, the Company effectuated a one-for-ten reverse stock split of its common stock. All related share and per share data have been retroactively applied to the financial statements and their related notes for all periods presented. See Note 10a.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

a. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates using assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Actual results could differ from those estimates.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to inventory valuations, royalty buyout and legal contingencies.

b. Functional currency

The currency of the primary economic environment in which the operations of the Company and its subsidiaries are conducted is the U.S. dollar ("$" or "dollar"). Accordingly, the functional currency of the Company and its subsidiaries is the U.S. dollar.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (cont.)

The dollar figures are determined as follows: transactions and balances originally denominated in dollars are presented in their original amounts. Balances in foreign currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. The resulting translation gains or losses are recorded as financial income or expense, as appropriate. For transactions reflected in the statements of operations in foreign currencies, the exchange rates at transaction dates are used. Depreciation and changes in inventories and other changes deriving from non-monetary items are based on historical exchange rates.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Company and of its subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash and cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits (up to three months from date of deposit), that are not restricted as to withdrawal or use, to be cash equivalents.

e. Concentration of credit risk and allowance for doubtful accounts

Financial instruments that may potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, which are deposited in major financially sound institutions in the U.S, Israel and Germany, and trade accounts receivable. The Company's trade accounts receivable are derived from revenues earned from customers from various countries. The Company performs ongoing credit evaluations of its customers' financial condition and, requires no collateral from its customers. The Company also has a credit insurance policy for some of its customers. The Company maintains an allowance for doubtful accounts receivable based upon the expected ability to collect the accounts receivable. The Company reviews its allowance for doubtful accounts quarterly by assessing individual accounts receivable and all other balances based on historical collection experience and an economic risk assessment. If the Company determines that a specific customer is unable to meet its financial obligations to the Company, the

Company provides an allowance for credit losses to reduce the receivable to the amount management reasonably believes will be collected, which is netted against “Accounts receivable — Trade”.

f. Inventory

Inventories are stated at the lower of cost (cost is determined on a “first-in, first-out” basis) or market value. The Company’s inventories generally have a limited shelf life and are subject to impairment as they approach their expiration dates. The Company regularly evaluates the carrying value of its inventories and when, based on such evaluation, factors indicate that impairment has occurred, the Company impairs the inventories’ carrying value.

g. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets: over three years for computers and other electronic equipment, and seven to fifteen years for office furniture and equipment and machinery and equipment (mainly seven years). Leasehold improvements are amortized on a straight-line basis over the term of the lease, which is shorter than the estimated life of the improvements.

h. Impairment in value of long-lived assets

The Company tests long-lived intangible and tangible assets for impairment whenever events or circumstances present an indication of impairment. If the sum of expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment would be recognized and the assets would be written down to their estimated fair values, based on expected future discounted cash flows.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (cont.)

i. Revenue recognition

Revenue is recognized when delivery has occurred, evidence of an arrangement exists, title and risks and rewards for the products are transferred to the customer, collection is reasonably assured and product returns can be reliably estimated.

The Company recognizes revenue net of value added tax (VAT).

j. Research and development costs

Research and development costs are charged to the statement of operations as incurred.

k. Share-based compensation

Employee option awards are classified as equity awards and accounted for using the grant-date fair value method. The fair value of share-based awards is estimated using the Black-Scholes valuation model and expensed over the requisite service period, net of estimated forfeitures. The Company estimates forfeitures based on historical experience and anticipated future conditions.

The Company elected to recognize compensation expenses for awards with only service conditions that have graded vesting schedules using the accelerated multiple option approach.

In addition, certain share-based awards of the Company are performance based and dependent upon achieving certain goals. With respect to these awards, the Company estimates the expected pre-vesting award probability that the performance conditions will be achieved. The Company only recognizes expense for those shares that are expected to vest.

l. Uncertain tax positions

The Company follows a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit. If under the first step a tax provision is assessed to be more likely than not of being sustained on audit, the second step is performed, under which the tax benefit is measured as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Such liabilities are classified as long-term, unless the liability is expected to be resolved within twelve months from the balance sheet date. The Company's policy is to include interest related to unrecognized tax benefits within "Financial expenses — net".

m. Deferred income taxes

Deferred taxes are determined utilizing the "asset and liability" method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws, and on tax rates anticipated to be in effect when the deferred taxes are expected to be paid or realized. The Company assesses realization of deferred income tax assets and, based on all available evidence, concludes whether it is more likely than not that the net deferred income tax assets will be realized. A valuation allowance is provided for the amount of deferred income tax assets not considered to be realizable.

The Company may incur an additional tax liability in the event of intercompany dividend distributions by its subsidiaries. Such additional tax liability in respect of these foreign subsidiaries has not been provided for in these financial statements as it is the Company's policy to permanently reinvest the subsidiaries' earnings and to consider distributing dividends only in connection with a specific tax opportunity that may arise.

Taxes that would apply in the event of disposal of investments in a foreign subsidiary have not been taken into account in computing the deferred taxes, as it is the Company's intention to hold, and not to realize, these investments.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (cont.)

n. Advertising

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. Advertising expenses were approximately $0.2 million and $0.8 million for the years ended December 31, 2015 and 2014, respectively.

o. Net loss per share

Basic and diluted net loss per share is computed by dividing the net loss for the year by the weighted average number of shares of common stock outstanding during the year. The calculation of diluted net loss per share excludes potential share issuances of common stock upon the exercise of share options and warrants, as the effect is anti-dilutive.

For the years ended December 31, 2015 and 2014, all shares of common stock underlying outstanding options, warrants and restricted stock have been excluded from the calculation of the diluted loss per share since their effect was anti-dilutive. The total number of shares of common stock related to outstanding options and warrants and restricted stock excluded from the calculations of diluted loss per share were 5,004,836 and 1,352,326 for the years ended December 31, 2015 and 2014, respectively.

p. Segment reporting

The Company has one operating and reportable segment.

q. Fair value measurement:

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

r. Allocation of issuance proceeds

When debt or equity is issued with other components that are subsequently measured at fair value, the proceeds are allocated first to such components (such as warrant liabilities and embedded derivatives in the debt that require bifurcation at their fair values) then the residual amount of the proceeds to the debt or equity. When the other components are classified in equity, the proceeds are allocated based on relative fair values. See Note 7.

s. Recently issued accounting pronouncements

1. In April, 2015, the Financial Accounting Standards Board ("FASB") issued guidance related to the presentation of Debt Issuance Costs. The new guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (cont.)

The new guidance does not affect the recognition and measurement of debt issuance costs. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance will be applied on a retrospective basis.

2. In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASC 606, Revenue from contracts with customers.

The objective of the new revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services, based on a five step model that includes the identification of the contract with the customer and the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies a performance obligation. The revenue standard is effective for annual periods beginning on or after December 15, 2016. The Company is currently evaluating the impact, if any, the adoption of this guidance will have on its consolidated financial statements.

On July 9, 2015, the FASB approved a one-year deferral of the effective date of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, such that it is effective beginning on or after December 15, 2017 for public entities. Reporting entities may choose to adopt the standard as of the original effective date.

3. On July 22, 2015, the FASB issued Accounting Standards Update 2015-11, Simplifying the Measurement of Inventory, which requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out (LIFO) and the retail inventory method (RIM) are not impacted by the new guidance. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years. Prospective application is required. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is

currently evaluating the impact of the standard on its consolidated financial statements.

NOTE 3 — RESTRUCTURING AND IMPAIRMENT

	December 31, 2015 ($ in thousands)	
Employee termination costs[1]		305
Lease settlement[2]		101
Total restructuring	$	406
Impairment of royalties buyout[3]		576
Total restructuring and impairment	$	982

During the first quarter of 2015, the board of directors approved to curtail developing and promoting our bare metal stent platform and implementing another cost reduction/focused spending plan. The plan has four components: (i) reducing headcount; (ii) limiting the focus of clinical and development expenses to only carotid and neurovascular products; (iii) limiting sales and marketing expenses primarily to those related to the CGuard EPS stent launch; and (iv) reducing all other expenses (including conferences, travel, promotional expenses, executive cash salaries, director cash fees, rent, etc.).

1. During the year ended December 31, 2015, the company incurred $305,000 of costs associated with reducing the Company's headcount.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 3 — RESTRUCTURING AND IMPAIRMENT (cont.)

2. On November 5, 2015, the Company entered into a second amendment (the "Second Lease Amendment") to the lease agreement for its facilities in the U.S. Pursuant to the Second Lease Amendment and effective January 1, 2016, the Company agreed to reduce its leased space and surrender the released premises. The Company also agreed to pay transaction costs and settlement amount of $101,000.

3. During the year ended December 31, 2015 the Company recorded expenses related to the impairment of the royalties buyout asset amounting to $576,000 due to anticipated lower sales of MGuard Prime in the future resulting from industry preferences for drug eluting stents.

The Company values Level 3 Royalties buyout using an internally developed valuation model, whose inputs include future MGuard Prime EPS sales and the derived royalties payments.

NOTE 4 — FAIR VALUE MEASUREMENT

Items Measured at Fair Value on a Recurring Basis

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

	Anti-Dilution Rights ($ in thousands)
Balance as of January 1, 2014	$ 156
Total losses (gains) (realized and unrealized) – included in earnings – Financial expenses (income), net	(46)
Settlement by issuance shares	(110)
Balance as of December 31, 2014	$ —

The Company valued Level 3 Anti-Dilution Rights using an internally developed valuation model, whose inputs include potential equity transactions (such as fund raising and share based awards), probability of completing successful fund raising during the relevant period and stock prices.

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. The fair value of the Loan (as defined in Note 7) approximated its carrying amount since it bears interest at rates that approximate current market rates.

NOTE 5 — PROPERTY, PLANT AND EQUIPMENT

a. Composition of assets, grouped by major classifications, is as follows:

	December 31,	
	2015	2014
	($ in thousands)	
Cost:		
Computer equipment	$221	$242
Office furniture and equipment	104	110
Machinery and equipment	961	951
Leasehold improvements	143	194
	1,429	1,497
Less – accumulated depreciation and amortization	(957)	(875)
Net carrying amount	$472	$622

b. Depreciation and amortization expenses totaled approximately $152,000 and $163,000 for the years ended December 31, 2015 and 2014, respectively.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 6 — LIABILITY FOR EMPLOYEES RIGHT UPON RETIREMENT

Israeli labor law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances.

Pursuant to section 14 of the Israeli Severance Compensation Act, 1963, some of the Company's employees are entitled to have monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with section 14 relieve the Company from any future severance payments to these employees.

The severance pay liability of the Company for the rest of its Israeli employees, which reflects the undiscounted amount of the liability, is based upon the number of years of service and the latest monthly salary. The severance pay liability is partly covered by insurance policies and by regular deposits with recognized severance payment funds. The Company may only withdraw funds previously deposited for savings in connection with the payment of severance. The severance pay expenses were approximately $211,000 and $233,000 for the years ended December 31, 2015 and 2014, respectively.

Defined contribution plan expenses were approximately $213,000 and $285,000 for the years ended December 31, 2015 and 2014, respectively.

The Company expects contribution plan expenses in 2016 to be approximately $165,000.

NOTE 7 — loan

I. 2013 Security and Loan Agreement

a. Loan and Security Agreement

On October 23, 2013, the Company and InspireMD Ltd. entered into a Loan and Security Agreement (the “Loan and Security Agreement”), pursuant to which a lender made a term loan to the Company and InspireMD Ltd. in the aggregate amount of $10 million (the “Loan”). The annual interest rate on the Loan is prime plus 4%, but shall not be reduced below 10.5%. Payments under the Loan and Security Agreement are for the interest portion only for 9 months, followed by 30 monthly payments of principal and interest through the scheduled maturity date on February 1, 2017.

The Company is permitted to prepay all or a portion of the Loan. However, any prepayments of the Loan will be subject to a penalty of (i) 2%, if the prepayment occurs within 12 months of the Loan being requested by the Company and InspireMD Ltd. (the “Advance Date”), (ii) 1%, if the prepayment occurs between 12 and 24 months after the Advance Date, and (iii) 0.5%, if the prepayment occurs more than 24 months after the Advance Date. The Company and InspireMD Ltd. will also pay the lender an aggregate end of term charge (the “End of Term Charge”) of $500,000 when the Loan is paid in full or matures. In addition, upon the occurrence of a change in control, the Company shall prepay the outstanding amount of all principal and accrued interest through the prepayment date and all unpaid lender’s fees and expenses accrued to the date of the repayment (including the End of Term Charge) together with the penalties stated above.

b. Security Documents

On October 23, 2013, InspireMD Ltd. issued the lender a Fixed Charge Debenture and a Floating Charge Debenture (collectively, the “Israeli Security Agreements”) in order to create a security interest in all the assets and property of InspireMD Ltd., securing the Company’s and InspireMD Ltd.’s obligations under the Loan and Security Agreement. In addition, on October 23, 2013 and November 8, 2013, the Company entered into Deposit Account Control Agreements with the lender and two banking institutions in the US (the “Deposit Account Control Agreements”) in order to perfect the lender’s security interest in the Company’s bank account. Pursuant to the Loan and Security Agreement, the Israeli Security Agreements and the Deposit Account Control Agreement, the Company’s obligations to the lender are secured by a first priority perfected security interest in all of the assets and properties of the Company and InspireMD Ltd., other than the intellectual property of the Company and InspireMD Ltd.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 7 — loan (cont.)

The Company is required under the Loan and Security Agreement to maintain at all times in the bank accounts under the Deposit Account Control Agreements, cash and cash equivalents which may include cash collected from Accounts Receivable by Inspire M.D Ltd. and InspireM.D GmbH within the previous 7 days, and cash transferred to Inspire M.D Ltd. for the settlement of Permitted Indebtedness within the following 7 days, in each unrestricted and unencumbered, in an aggregate amount of at least the lesser of (a) an amount equal to one hundred percent of the then outstanding principal amount of the Term Loan Advance and (b) an amount equal to seventy-five percent of the aggregate amount of all of Borrower's worldwide cash and cash equivalents.

As of December 31, 2015, the future principal payments obligation for the Loan were as follows:

	($ in thousands)
Year Ended December 31:	
2016	$ 4,234
2017	776
	$ 5,010

NOTE 8 — RELATED PARTIES TRANSACTIONS

a. CEO

On January 26, 2015, the Company granted the CEO stock options to purchase 30,777 shares of the Company's common stock with an exercise price of $7.2 per share. The fair value of the options using the Black-Scholes option-pricing model was approximately $131,000.

On January 26, 2015 the Company granted the CEO 20,509 shares of restricted common stock which are subject to forfeiture until vested and which vest in three equal annual installments;

On January 5, 2015, the CEO's employment agreement was amended such that, in lieu of 50% of the CEO's base cash salary, he would be paid an equivalent amount of shares of restricted common stock. On January 26, 2015, the Company issued 31,250 shares of restricted stock subject to a one year service condition, with a fair value of $225,000.

On June 29, 2015, the Company amended the employment agreement with the Company's CEO in order to, among other things, (i) modify the term of employment to end on June 30, 2016 unless earlier terminated by either party; and (ii) provide that, until the Company raises an aggregate of $5 million from investors, the CEO will receive (A) with respect to his employment in 2015, the 31,250 shares of restricted common stock of the Company, issued on January 26, 2015, as described above, will be subsequently adjusted based upon the volume-weighted average price of the Company's common stock during the calendar year ended December 31, 2015 (or during the period from January 2, 2015 through his termination date if his employment is terminated upon his death or disability, by the CEO for good reason, or by the Company without cause prior to December 31, 2015) to represent the equivalent of 50% of the CEO's base salary in 2015, and (B) with respect to his employment in 2016, 50% of his base salary from January 1, 2016 through June 30, 2016 to be paid in shares of restricted common stock of the Company valued at the fair market value of the Company's common stock as of the market close on January 2, 2016. The amendment also amends those certain provisions in the Employment Agreement related to payments on termination of employment.

On December 31, 2015, 63,825 shares of restricted stock were issued to the CEO, based on the adjusting formula stipulated in the amended agreement, as described above.

See note 13b with respect to the fourth amendment to the CEO's employment agreement, entered into subsequent to December 31, 2015.

The share based compensation arrangement with the Company's CEO was initially classified as an equity award, and was reclassified to a liability award on June 29, 2015 following the second amendment to the CEO's employment agreement, given the adjusting formula described above. On this date, the amount accumulated in additional paid in capital was reclassified as a liability, which was subsequently remeasured at fair value up to the date of its settlement.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 8 — RELATED PARTIES TRANSACTIONS (cont.)

On December 31, 2015, the fair value of the liability just prior to such date, in the amount of $84,000, was carried to additional paid in capital.

The Company recognized a total compensation expense of $84,000 in connection with the CEO's non-cash portion of his annual 2015 salary.

During the year ended December 31, 2014, the Company granted the CEO stock options to purchase 39,968 shares of the Company's common stock with an exercise price of $29.70-$31.00 per share, and 18,273 shares of restricted stock, which vests in three equal annual installments. The fair value of the above options and restricted shares, using the Black-Scholes option-pricing model, was approximately $736,000 and $554,000, respectively.

The CEO has an option to deliver a number of shares with an aggregate fair market value that equals or exceeds (to avoid the issuance of fractional shares) the required tax withholding payment resulted from the vesting of the restricted stock or from the exercise of the options. As of December 31, 2015 and 2014, 32,811 and 4,569 shares were withheld by the Company to satisfy tax withholding obligations. The payment, amounting to $81,000 and $115,000, was deducted from equity.

On or before December 31 of each calendar year, the CEO will be eligible to receive an additional grant of equity awards equal, in the aggregate, to up to 0.5% of the Company's actual outstanding shares of common stock on the date of grant, provided that the actual amount of the grant will be based on his achievement of certain performance objectives as established by the board, in its reasonable discretion, for each such calendar year. In connection with the equity compensation related to 2013 achievements, on January 29, 2014 the CEO was granted stock options to purchase 8,633 shares of the Company's common stock and 8,633 restricted shares, (included in total options and restricted shares granted to the CEO during 2014). In connection with the equity compensation related to 2014 achievements, on January 26, 2015 the CEO was granted stock options to purchase 5,300 shares of the Company's common stock and 5,300 restricted shares.

On January 28, 2015, the Company's board of directors approved an annual bonus for 2014 to the CEO in the amount of $69,105.

In July 2015, the Company's board of directors approved an annual bonus for 2015 to the CEO in the amount of $45,833.

b. During the years ended December 31, 2015 and 2014, the Company granted stock options to directors to purchase a total of 138,541 and 33,500 shares of the Company's common stock, respectively. The options have exercise prices of $1.7 – $7.8 and $31, per share, respectively, which were the fair market value of the Company's common stock on the date of each respective grant. The options granted in 2014 are subject to a three-year vesting period with one-third of such awards vesting each year. Of the 138,541 options granted in 2015, 107,744 options were in lieu of cash compensation that was owed to them for their services as directors for the third and fourth quarters of 2014 and the first through third quarter of 2015 and are fully vested as of their grant date and the remaining options are subject to a three-year vesting period, with one-third of such awards vesting each year.

The fair value of the above options using the Black-Scholes option-pricing model, was approximately $338,000 and $636,000, respectively.

c. Balances with related parties:

	December 31,	
	2015	2014
	($ in thousands)	
Current liabilities:		
Other accounts payable	$ 132	$ 241

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 8 — RELATED PARTIES TRANSACTIONS (cont.)

d. Transactions with related parties:

	Year ended December 31,	
	2015	2014
	($ in thousands)	
Total expenses	$ 1,892	$ 3,269

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

1) On December 13, 2011, the Company entered into a lease agreement for a facility in Israel, which expired in December 2014. The Company had the option, under the agreement, to extend the agreement for two additional two year periods, for a total of four years. The Company extended the agreement for two additional years.

In December 2013, the Company entered into a lease agreement for its facilities in the U.S which expires in February 2018. The Company has the right to terminate the lease agreement effective February 1, 2017 upon 9 months prior written notice, as stipulated in the agreement.

In August 2014, the Company entered into an amendment (the "First Lease Amendment") to the lease agreement for its facilities in the U.S. Pursuant to the First Lease Amendment, amongst other things, the Company agreed to lease additional space and extend the expiration of the agreement to February 2019.

On November 5, 2015, the Company entered into a second amendment (the "Second Lease Amendment") to the lease agreement for its facilities in the U.S. See Note 3.

On September 1, 2015 the Company signed a sublease agreement for part of its U.S. facilities. The agreement will terminate on August 31, 2017.

Rent expense included in the consolidated statements of operations totaled approximately $383,000 and $388,000 for the years ended December 31, 2015 and 2014, respectively. The rent expense for the year ended December 31, 2015 excludes $101,000, which is recorded under “Restructuring and impairment” in the consolidated statements of operations. See Note 3.

As of December 31, 2015, the aggregate future minimum lease obligations for office rent under non-cancelable operating lease agreements were as follows:

	($ in thousands)	
Year Ended December 31:		
2016	$	320
2017		5
	$	325

2) The Company leases its motor vehicles under operating lease agreements. As of December 31, 2015, the aggregate non-cancelable future minimum lease obligations for motor vehicles were approximately $6,000.

b. License Agreement:

On August 22, 2013, the Company, InspireMD Ltd. and a licensor entered into an amendment to the License Agreement, pursuant to which the Company and the Licensor agreed to amend the royalty fee from 2.9% of all net sales during the term of the agreement to (i) 2% of the first $10.56 million of net sales from July 1, 2013 through June 30, 2015, provided that the Company makes an advance royalty payment of $192,000 on the date of the amendment, (ii) 2.5% of net sales in excess of

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

$10.56 million from July 1, 2013 through June 30, 2015, payable within 45 days of June 30, 2015, and (iii) 2.9% of all net sales beginning on July 1, 2015. The above referenced advance royalty payment has been included in long term prepaid expenses.

During the year ended December 31, 2015 the Company recorded expenses related to the impairment of the royalties buyout asset amounting to $576,000 due to anticipated lower sales of MGuard Prime in the future resulting from industry preferences for drug eluting stents. The expense is recorded under “Restructuring and impairment” in the consolidated statements of operations.

Royalties expenses for the years ended December 31, 2015 and 2014 amounted to approximately $149,000 and $148,000, respectively.

c. Liens and pledges

1) The Company’s obligations under the Loan and Security Agreement were secured by the Israeli Security Agreements and the Deposit Account Control Agreements on all of the assets and properties of the Company and InspireMD Ltd., other than the intellectual property of the Company and InspireMD Ltd. See Note 7.

d. Litigation:

In July 2012, a purported assignee of options in InspireMD Ltd. submitted a statement of claim against the Company, InspireMD Ltd., and the Company’s former CEO and President for a declaratory and enforcement order that it is entitled to options to purchase 8,364 shares of the Company’s common stock at an exercise price of $7.60 per share. In December 2014 the court accepted a motion to dismiss the former CEO and president from the lawsuit. On May 27, 2015 the Company and the assignee of options accepted a settlement agreement pursuant to which the claim was removed and the plaintiff waived his entire claim against the Company, in consideration of the Company’s consent to allow him to exercise 5,855 options of the Company’s shares of common stock.

In December 2012, a former service provider of InspireMD GmbH filed a claim with the Labor Court in Buenos Aires, Argentina in the amount of $193,378 plus interest (6% in dollars or 18.5% in pesos), social benefits, legal expenses and fees (25% of the award) against InspireMD Ltd. and InspireMD GmbH. The Company's management, after considering the views of its legal counsel as well as other factors, recorded a provision of $250,000 in the financial statements for the quarter ended December 31, 2012. In March 2015, the interest rate made by the Court of Appeal in Argentina was increased retroactively, which resulted in the provision increasing to $340,000. The related expense for the increase of $90,000 was recorded to "General and administrative" within the Consolidated Statements of Operations. The Company settled with the plaintiff in the amount of $80,000 plus $20,000 for legal fees, which was approved by the Labor Court and paid by the Company in March 2016 resulting in the provision decreasing to $100,000. The related decrease in provision amounting to $240,000 was recorded to "General and administrative" within the Consolidated Statements of Operations.

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

In November 2015, the Company received written communication from a service provider to remit payment amounting to $1,965,000. Given the preliminary stage, the Company's management and legal counsel cannot estimate the outcome of any legal proceedings or settlements, however believes that neither a court loss nor settlement are probable.

NOTE 10 — EQUITY

a. Share capital

On September 9, 2015, the stockholders approved the authorization of the board of directors, in its discretion, to amend the Amended and Restated Certificate of Incorporation of the Company to effect a reverse stock split of the Company's common stock at a ratio of one-for-ten and to reduce the number of authorized shares of the Company's common stock from 125 million shares to 50 million shares. The Company's common stock is listed on the NYSE MKT.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 10 — EQUITY (cont.)

On September 30, 2015, the Company filed with the Secretary of State of Delaware a Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation to effect a one-for-ten reverse stock split of its common stock, par value $0.0001 per share (the "Reverse Stock Split"), effective as of October 1, 2015, which decreased the number of issued and outstanding shares of common stock and restricted shares of common stock from 78 million shares to 7.8 million shares. The Company's authorized common stock was decreased from 125 million shares to 50 million shares. Accordingly, as of December 31, 2015, the Company has authorized 55,000,000 shares of capital stock, par value $0.0001 per share, of which 50,000,000 are shares of common stock and 5,000,000 are shares of "blank check" preferred stock.

All related share and per share data have been retroactively applied to the financial statements and their related notes for all periods presented.

Pursuant to the terms of 2011 SPA that provided these investors with certain anti-dilution protections until March 31, 2014. The Company issued the purchasers or their assigns an aggregate of 84,289 shares of common stock through 2014. The related expense has been recorded to "Financial expenses (income), net" within the consolidated statements of operations in the relevant periods.

On August 15, 2014, the Company sold 94,800 shares of its common stock pursuant to its at-the-market (ATM) issuance sales agreement with MLV & Co. LLC. These sales resulted in net proceeds to the Company of approximately $2.2 million.

On November 7, 2014, the Company sold 626,189 shares of its common stock and warrants to purchase 313,100 shares of common stock in a registered direct offering (the "2014 Offering"). The common stock was sold at a negotiated purchase price of $13 per share, and each purchaser received a warrant to purchase 0.5 of a share of common stock for each share of common stock that it purchased in the offering. The warrants, which are classified in equity, are non-exercisable for six months and have a term of exercise of 42 months from the date of issuance and an exercise price of $17.5. This offering resulted in net proceeds to the Company of approximately $7.4 million after deducting placement agent fees and other estimated offering expenses.

On March 9, 2015, the Company sold 3,436,968 shares of its common stock and warrants to purchase 3,436,968 shares of common stock in a registered direct offering. Each purchaser received a warrant to purchase one share of common stock for each share of common stock that it purchased in the offering. The warrants, which are classified as equity, are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $5.50. This offering resulted in net proceeds to the Company of approximately $12.4 million after deducting placement agent fees and other offering expenses.

b. Share-Based Compensation

1. On March 28, 2011, the board of directors and stockholders of the Company adopted and approved the InspireMD, Inc. 2011 UMBRELLA Option Plan (the “Umbrella Plan”) which expires on March 27, 2021. Under the Umbrella Plan, as subsequently amended, the Company reserved 500,000 shares of common stock as awards to employees, consultants, and service providers. As of December 31, 2015, the Company had reserved 18,603 shares of common stock for issuance under the plans as described above.

On December 16, 2013, the board of directors and stockholders of the Company adopted and approved the InspireMD, Inc. 2013 Long-Term Incentive Plan (the “2013 Plan”). Under the 2013 Plan, the Company reserved 500,000 shares of common stock for awards to employees, officers, directors, consultants, and service providers. On September 9, 2015, the stockholders approved an amendment to the 2013 Plan to increase the number of shares of common stock available for issuance pursuant to awards under the Plan by 470,000 shares of common stock, to a total of 970,000 shares of common stock (the “Plan Amendment”). As of December 31, 2015, the Company had reserved 439,930 shares of common stock for issuance under the plans as described above.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 10 — EQUITY (cont.)

The 2013 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem. The 2013 Plan is administered by the Company's compensation committee.

U.S. federal income tax consequences relating to the transactions described under the Umbrella Plan are set forth in Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and treasury regulations in 2004 to regulate all types of deferred compensation.

Pursuant to the current Section 102 of the Israeli Tax Ordinance, which came into effect on January 1, 2003, options may be granted through a trustee (i.e., Approved 102 Options) or not through a trustee (i.e., Unapproved 102 Options).

2. During the years ended December 31, 2015 and 2014, the Company granted stock options to the CEO, employees and directors to purchase a total of 214,499 and 184,652 shares of the Company's common stock, respectively. The options have exercise prices ranging from $1.70-$8.30 and $11.40-$32.30 per share, respectively, which were the fair market value of the Company's common stock on the date of each respective grant. The fair value of these options, using the Black-Scholes option-pricing model, was approximately $660,000 and $3,279,000, respectively. Of the 214,499 stock options granted in 2015, 107,744 options are fully vested as of their grant date and the remaining options are subject to a three-year vesting period with one-third of such awards vesting each year. The options granted in 2014 are subject to a three-year vesting period with one-third of such awards vesting each year See also Note 8a for stock options grants to the CEO and directors.

Out of the 184,652 stock options granted during the year ended December 31, 2014, 45,001 stock options were granted to the COO of the Company, who also serves as one of the Company's directors.

3. During the year ended December 31, 2015 and 2014, the Company granted to the CEO, employees and directors 196,178 and 65,076 restricted shares of the Company's common stock, respectively. The fair value of these restricted

shares was approximately $1,157,000 and $1,916,000. Of the 196,178 restricted shares granted during the year ended December 31, 2015, 43,300 restricted shares are subject to a one-year vesting period, 9,250 restricted shares are fully vested as of their grant date and are subject to a 6 month lock up period, 63,825 restricted shares are fully vested as of their grant date, 32,914 restricted shares are subject to a six-month vesting period and 46,889 restricted shares are subject to a three-year vesting period, with one-third of such awards vesting each year. The 65,076 restricted shares granted during the year ended December 31, 2014 are subject to a three-year vesting period with one-third of such awards vesting each year. Out of the 65,076 restricted shares mentioned above, 15,000 restricted shares were granted to the COO of the Company, who also serves as one of the Company's directors.

4. The following table summarizes information about warrants and share options to employees:

	Year ended December 31,			
	2015		2014	
	Number of warrants and options	Weighted average exercise price	Number of warrants and options	Weighted average exercise price
Outstanding – beginning of period	537,018	$ 40.10	368,818	$ 45.50
Granted	214,499	$ 5.31	184,652	$ 29.10
Forfeited	(37,830)	$ 30.68	(16,452)	$ 39.00
Outstanding – end of period	713,687	$ 30.10	537,018	$ 40.10
Exercisable at the end of the period	344,787	$ 46.37	229,201	$ 54.80

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 10 — EQUITY (cont.)

The following table summarizes information about warrants and share options to non-employees:

	Year ended December 31,			
	2015		2014	
	Number of warrants and options	Weighted average exercise price	Number of warrants and options	Weighted average exercise price
Outstanding – beginning of period	139,902	$ 44.80	154,315	$ 45.70
Forfeited	(5,608)	$ 30.67	(14,413)	$ 54.40
Outstanding – end of period	134,294	$ 45.37	139,902	$ 44.80
Exercisable at the end of the period	133,888	$ 45.36	139,140	$ 44.70

5. The following table summarizes information about restricted shares to employees:

	Year ended December 31,	
	2015	2014
	Number of restricted shares	Number of restricted shares
Outstanding – beginning of period	103,016	54,654
Granted	196,178	65,076
Forfeited	(10,145)	(718)
Vested	(141,834)	(15,996)
Outstanding – end of period	147,215	103,016

The following table provides additional information about all warrants and options outstanding and exercisable:

Exercise price	Outstanding as of December 31, 2015 Warrants and options outstanding	Weighted average remaining contractual life (years)	Warrants and options exercisable
$0-$8.3	251,637	8.19	38,709
$19.7-$29.8	227,249	7.80	117,081
$30.5-$34	87,202	7.67	43,065
$40.5-$49.285	93,283	5.78	91,210
$60-$78	172,360	2.92	172,360
$80-$100	16,250	5.42	16,250
	847,981	6.64	478,675

The weighted average of the remaining contractual life of total vested and exercisable warrants and options as of December 31, 2015 was 5.04 years.

The aggregate intrinsic value of the total exercisable warrants and options as of December 31, 2015 was approximately $25,563.

The weighted average fair value of warrants and options granted was approximately $3.11 and $17.80 for the years ended December 31, 2015 and 2014, respectively. The weighted average fair value of warrants and options granted was estimated using the Black-Scholes option-pricing model.

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 10 — EQUITY (cont.)

1. The following table sets forth the assumptions that were used in determining the fair value of options granted to employees for the years ended December 31, 2015 and 2014:

	Year ended December 31,	
	2015	2014
Expected life	5-6.5 years	5.5-6.5 years
Risk-free interest rates	1.41%-1.71%	1.64%-2.18%
Volatility	62.68%-71.12%	62.89%-68%
Dividend yield	0%	0%

The Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. Accordingly, as to ordinary course options granted, the expected term was determined using the simplified method, which takes into consideration the option's contractual life and the vesting periods (for non-employees, the expected term is equal to the option's contractual life).

The Company estimates its forfeiture rate based on its employment termination history, and will continue to evaluate the adequacy of the forfeiture rate based on analysis of employee turnover behavior and other factors (for non-employees the forfeiture rate is nil). The annual risk-free rates are based on the yield rates of zero coupon non-index linked U.S. Federal Reserve treasury bonds as both the exercise price and the share price are in dollar terms. The Company's expected volatility is derived from a blended volatility, based on its historical data and that of a peer group of public companies.

2. As of December 31, 2015, the total unrecognized compensation cost on employee and non-employee stock options and restricted shares, related to unvested stock-based compensation, amounted to approximately $1.75 million. This cost is expected to be recognized over a weighted-average period of approximately 0.82 years. This expected cost does not include the impact of any future stock-based compensation awards.

The following table summarizes the allocation of total share-based compensation expense in the consolidated statements of operations:

	Year ended December 31,	
	2015	2014
	($ in thousands)	
Cost of revenues	$ 8	$ 13
Research and development	716	534
Sales and marketing	179	446
General and administrative	2,145	3,145
Restructuring and impairment	59	
	$ 3,107	$ 4,138

c. At-the-Market Agreement

On October 23, 2013, the Company entered into an at-the-market issuance sales agreement, or the Sales Agreement, with MLV & Co. LLC pursuant to which The Company may issue and sell shares of the Company common stock having an aggregate offering price of up to $40 million directly on the NYSE MKT or sales made to or through a market maker other than on an exchange. With the Company’s prior written consent, sales may also be made in negotiated transactions and/or any other method permitted by law. MLV & Co. LLC will receive a 3% commission from the gross proceeds of any sales. Subject to the terms and conditions of the Sales Agreement, MLV & Co. LLC will use its commercially reasonable efforts to sell the shares of the Company’s common stock from time to time, based upon the Company’s instructions (including any price, time or size limits or other parameters or conditions that the Company may impose). The Company is not obligated to make any sales of common stock under the Sales Agreement and no assurance can be given that the Company will sell any shares under the Sales

INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 10 — EQUITY (cont.)

Agreement, or, if the Company does, as to the price or amount of shares that the Company will sell, or the dates on which any such sales will take place. The Sales Agreement may be terminated by either party at any time upon 10 days' notice to the other party, or by MLV & Co. LLC at any time in certain circumstances, including the occurrence of a material adverse effect to the Company. In addition, the Sales Agreement will automatically terminate upon the sale of all common stock subject to the Sales Agreement. During the year ended December 31, 2014, the Company sold 94,800 shares of its common stock pursuant to its at-the-market issuance sales agreement with MLV & Co. LLC. These sales resulted in net proceeds to the Company of approximately $2.2 million. Following the 2014 Offering, the Company is prohibited from entering into any variable rate transactions which may impair its ability to make sales under our at-the-market issuance sales agreement absent the consent of the investors in the 2015 Offering until March 9, 2017.

NOTE 11 — TAXES ON INCOME

a. Tax laws applicable to the Company and its subsidiaries

Taxation in the United States

InspireMD, Inc. is taxed under U.S. tax laws. Accordingly, the applicable corporate tax rate is 34%.

Taxation in Israel

InspireMD Ltd. is taxed under the Israeli Income Tax Ordinance as a corporate tax rate of 26.5%.

Taxation in Germany

InspireMD GmbH is taxed according to the tax laws in Germany. Accordingly, the applicable tax rates are corporate tax rate of 15.825% and trade tax rate of 17.15%.

Taxation in UK

InspireMD UK is taxed according to the tax laws in the UK. Accordingly, the applicable tax rate is a corporate tax rate of 20%.

b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

1. InspireMD Ltd. has been granted a "Beneficiary Enterprises" status under the Investment Law including Amendment No. 60 thereof, which became effective in April 2005.

The tax benefits derived from any such Beneficiary Enterprise relate only to taxable profits attributable to the specific program of investment to which the status was granted.

The main benefit, to which InspireMD Ltd. is entitled, conditional upon the fulfilling of certain conditions stipulated by the above law, is a two-year exemption and five years of a reduced tax rate of 25% from tax on income derived from beneficiary activities in facilities in Israel. The two-year exemption starts only when the Company starts to pay taxes after using all carryforward tax losses. 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 five 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.

In the event of a distribution of tax-exempt income attributable to "Beneficiary Enterprises" as a cash dividend, the Company will be required to pay tax at a rate of 25% on the amount distributed. In addition, dividends originating from income attributable to the "Beneficiary Enterprises" will be subject to a 15% withholding tax.

Should InspireMD Ltd. derive income from sources other than the "Beneficiary Enterprises" during the period of benefits, such income shall be taxable at the regular corporate tax rate.

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 11 — TAXES ON INCOME (cont.)

2. Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon InspireMD Ltd. fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in approved assets. In the event of failure to comply with these conditions, the benefits may be cancelled and InspireMD Ltd. may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.

The Company opted not to apply for Preferred Enterprise status.

c. Carry forward tax losses

As of December 31, 2015, InspireMD Ltd. had a net carry forward tax loss of approximately $52 million. Under Israeli tax laws, the carry forward tax losses can be utilized indefinitely. The Company had a net carry forward tax loss of approximately $29 million. Under U.S. tax laws, the Company’s tax losses can be utilized two years back and twenty years forward. As such the Company’s carry forward tax losses will begin to expire on December 31, 2031.

d. Loss before income taxes

The components of loss before income taxes are as follows:

	Year ended December 31,	
	2015	2014
	($ in thousands)	

Profit (loss) before taxes on income:		
InspireMD, Inc.	$ (6,131)	$ (11,671)
Subsidiaries	(9,450)	(13,412)
	$ (15,581)	$ (25,083)

Current taxes on income

The following is a reconciliation of the theoretical tax expense, assuming all income was taxed at the regular tax rates applicable to the Company in the U.S. and the actual tax expense:

	Year ended December 31,	
	2015	2014
	($ in thousands)	
Loss before taxes on income, as reported in the statements of operations	$ 15,581	$ 25,083
Theoretical tax benefit	(5,297)	(8,529)
Decrease in tax benefit resulting from permanent differences	273	390
Increase (decrease) in taxes on income resulting from the computation of deferred taxes at a rate which is different from the theoretical rate, and other	716	2,038
Difference between income reported for tax purposes and income for financial reporting purposes – net	50	1,100
Decrease in theoretical tax benefit resulting from subsidiaries different tax rate	(53)	(73)
Change in corporate tax rates		—
Change in valuation allowance	4,315	5,086
	$ 4	$ 12

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 11 — TAXES ON INCOME (cont.)

As of December 31, 2015 and 2014, the Company determined that it was more likely than not that the benefit of the operating losses would not be realized and consequently, management concluded that full valuation allowances should be established regarding the Company's deferred tax assets.

The changes in the valuation allowance for the year ended December 31, 2015 and 2014 were as follows:

	Year ended December 31,	
	2015	2014
	($ in thousands)	
Balance at the beginning of the year	$ 24,655	$ 19,569
Changes during the year	4,315	5,086
Balance at the end of the year	$ 28,970	$ 24,655

e. Accounting for Uncertain Tax position

The Company has no uncertain tax positions as of December 31, 2015.

All of the above amounts of unrecognized tax benefits would affect the effective tax rate if recognized.

A summary of open tax years by major jurisdiction is presented below:

Jurisdiction	Years
U.S.	2012-2015
Israel	2012-2015

Germany	2010-2015
United Kingdom	2014-2015

f. Deferred income tax:

	December 31,	
	2015	2014
	($ in thousands)	
Short-term:		
Allowance for doubtful accounts	$74	$89
Provision for vacation and recreation pay	105	59
	179	148
Long-term:		
R&D expenses	1,326	1,738
Share-based compensation	3,737	2,990
Carry forward tax losses	23,674	19,729
Accrued severance pay, net	54	50
	28,791	24,507
Less-valuation allowance	(28,970)	(24,655)
	$—	$—

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 12 — SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

Balance sheets:

a. Accounts receivable:

The changes in "Allowance for doubtful accounts" during the years ended December 31, 2015 and 2014 are as follows:

	Year ended December 31,	
	2015	2014
	($ in thousands)	
Balance at beginning of period	$ 337	$ 405
Additions during the period	72	35
Deductions during the period	(49)	(57)
Exchange rate differences	(14)	(46)
Balance at end of period	$ 346	$ 337

b. Inventories:

	December 31,	
	2015	2014
	($ in thousands)	
Finished goods	$ 301	$ 1,273
Work in process	307	326
Raw materials and supplies	145	325
	$ 753	$ 1,924

For the years ended December 31, 2015 and 2014, the Company recorded expenses for slow moving inventory in the amounts of $588,000 and $129,000, respectively.

c. Voluntary Field Corrective Action

On April 30, 2014, the Company initiated a voluntary field corrective action ("VFA") of its MGuard Prime EPS to address the issue of stent retention following reports of MGuard Prime stent dislodgements. On June 18, 2014, the Company received approval from the European regulatory agency to resume the manufacturing of the MGuard Prime stent with a modified stent securement process. The Company also received approval to modify and re-deploy existing MGuard Prime stents that were sent to the Company by clinical and commercial sites worldwide. These products have been modified and shipped to direct hospital customers and the majority of its distributor partners, who have begun shipping modified product back into hospital accounts. The Company began shipping products to new customers in the Company's direct markets in Western Europe in October 2014. The VFA had an adverse impact on both the commercial and clinical activities relating to the MGuard Prime EPS from the date of initiation through December 31, 2014.

The expenses associated with the modifications that were performed as a result of the VFA are approximately $377,000. These expenses were recorded in "Cost of revenues" through the end of 2015.

In addition, as a result of the VFA, the Company suspended enrollment in the MASTER II trial, which had been previously launched to support its investigational device exemption application for MGuard Prime EPS with the U.S. Food and Drug Administration ("FDA"), pending a review by the FDA of the manufacturing improvements to the MGuard Prime EPS. The FDA approved the re-commencement of the MASTER II trial in October 2014.

Notwithstanding FDA approval to re-commence enrollment of the Master II trial, in light of current market conditions moving toward the use of drug-eluting stents (DES) over bare-metal stents, the Company elected not to resume enrollment in the MASTER II trial. As a result of this change, the MASTER II trial will no longer be an FDA registration trial.

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 12 — SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (cont.)

d. Accounts payable and accruals-other:

	December 31,	
	2015	2014
	($ in thousands)	
Employees and employee institutions	$412	$1,022
Accrued vacation and recreation pay	377	410
Accrued clinical trials expenses	582	1,016
Provision for sales commissions	80	120
Accrued expenses	552	993
Taxes payable	3	15
	$2,006	$3,576

NOTE 13 — ENTITY WIDE DISCLOSURES

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

	Year ended December 31,	
	2015	2014
	($ in thousands)	
Germany	$ 519	$ 286
Italy	415	96
Brazil	238	95
Belarus	226	285
Middle East	94	792
Other	818	1,264
	$ 2,310	$ 2,818

By product:

	Year ended December 31,	
	2015	2014
	($ in thousands)	
MGuard*	1,607	2,797
CGuard	703	21
	$ 2,310	$ 2,818

* Includes revenue from sales of both MGuard Prime and MGuard.

By principal customers:

	Year ended December 31,			
	2015		2014	
Customer A	11	%	7	%
Customer B	10	%	10	%
Customer C			21	%

All tangible long lived assets are located in Israel.

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INSPIREMD, INC.

Notes to the Consolidated Financial Statements

NOTE 14 — SUBSEQUENT EVENTS

On January 16, 2016, the Board of Directors appointed a new director as a Vice Chairman of the Board, effective as of January 22, 2016, with a term expiring at the Company's 2017 annual meeting of stockholders. In connection with his appointment, the new director will be granted an option to purchase 780,000 shares of the Company's common stock on April 30, 2016 at an exercise price equal to the closing fair market value of the Common Stock on the date of grant on April 30, 2016, subject to the terms and conditions of the 2013 Plan. Options to purchase 195,000 shares of Common Stock vest and become exercisable immediately upon the time of grant, and, until all 780,000 options shall have vested, options to purchase 195,000 shares of common stock will vest and become exercisable each time upon (i) the Company raising at least $15 million through an equity offering; (ii) the Company's market cap becoming equal to or greater than $25 million; (iii) the Company receiving research coverage by three new analysts at a leading investment bank; or (iv) the tripling of the Company's market cap from the date of appointment. Any of the foregoing conditions, if achieved following the director's appointment but prior to April 30, 2016, will be deemed satisfied on the date of grant. However, in the event (i) of the director's death or permanent disability, (ii) a change in control (as defined in the Plan) or (iii) if the director is asked to resign for any reason other than cause (as defined in the Company's form of Nonqualified Stock Option Agreement under its Plan), the options shall vest immediately in full. The options have a term of 10 years from the date of grant and may be exercised for either cash or on a cashless basis.

On January 21, 2016, the Company and the Company's CEO, entered into a fourth amendment to the CEO's Employment Agreement dated as of January 3, 2013, as first amended on April 24, 2013, and further amended on January 5, 2015, and on June 29, 2015, by and between the Company and the CEO, in order to, among other things, (i) modify the term of the CEO's employment to end on the earlier of June 30, 2016 or the date upon which a new president and/or chief executive officer (or executive performing a similar role) commences employment with the Company (or, if such individual is promoted internally, the date such individual is promoted to the position of president and/or chief executive officer); and (ii) provide that, during the remaining term of his employment, the CEO will receive (A) 50% of his base salary in cash payments, for all days that the CEO works during the remaining term of his employment, at the monthly rate of $18,750, payable in accordance with the Company's regular payroll practices, and (B) a lump-sum payment equivalent to 50% of the CEO's base salary through June 30, 2016, at the monthly rate of $18,750, payable within 20 business days from the earlier of (x) the Company raising an aggregate of $5 million from investors, or (y) June 30, 2016.

On January 26, 2016 the Company entered into an option cancellation and release agreement with certain directors, the CEO and CFO ("the Optionholders"), pursuant to which the parties agreed to cancel options to purchase an aggregate of 422,443 shares of common stock of the Company at exercise prices ranging from $7.20 to $100.00 previously granted to each of the Optionholders.

On March 21, 2016, the Company sold 1,900,000 shares of its common stock and warrants to purchase 950,000 shares of common stock in an underwritten public offering. The common stock was sold at a price of $0.59 per share and each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to the Company of approximately $1.1 million.

On March 21, 2016, the Company sold 1,033,051 shares of its common stock and warrants to purchase 516,526 shares of common stock in an underwritten private offering. The common stock was sold at a price of $0.59 per share and each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to the Company of approximately $0.6 million.

These sales of securities on March 21, 2016 resulted in aggregate net proceeds to the Company of approximately $1.4 million after deducting underwriting discount, placement agent fees and other offering expenses.

INSPIREMD, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(U.S. dollars in thousands other than share and per share data)

	March 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,999	$ 3,257
Accounts receivable:		
Trade, net	546	405
Other	204	142
Prepaid expenses	62	75
Inventory	511	753
Total current assets	3,322	4,632
NON-CURRENT ASSETS: PROPERTY, PLANT AND EQUPMENT, net	436	472
Funds in respect of employees rights upon retirement	411	502
Royalties buyout	75	87
Total non-current assets	922	1,061
Total assets	$ 4,244	$ 5,693

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

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INSPIREMD, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(U.S. dollars in thousands other than share and per share data)

	March 31, 2016	December 31, 2015
LIABILITIES NET OF CAPITAL DEFICIENCY		
CURRENT LIABILITIES:		
Accounts payable and accruals:		
Trade	$453	$ 512
Other	2,139	2,006
Advanced payment from customers	169	167
Current maturity of loan	4,294	4,149
Total current liabilities	7,055	6,834
LONG-TERM LIABILITIES:		
Liability for employees rights upon retirement	584	706
Long-term loan	—	1,099
Total long-term liabilities	584	1,805
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
Total liabilities	7,639	8,639
EQUITY (CAPITAL DEFICIENCY):		
Common stock, par value $0.0001 per share; 50,000,000 shares authorized; 10,671,187 and 7,676,074 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	1	1
Additional paid-in capital	122,209	120,049
Accumulated deficit	(125,605)	(122,996)
Total capital deficiency	(3,395)	(2,946)
Total liabilities net of capital deficiency	$4,244	$ 5,693

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

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INSPIREMD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(U.S. dollars in thousands, except share and per share data)

	Three months ended March 31,	
	2016	2015
REVENUES	$563	$477
COST OF REVENUES	497	514
GROSS PROFIT (LOSS)	66	(37)
OPERATING EXPENSES:		
Research and development	478	1,352
Selling and marketing	386	1,017
General and administrative	1,589	1,970
Restructuring and impairment		514
Total operating expenses	2,453	4,853
LOSS FROM OPERATIONS	(2,387)	(4,890)
FINANCIAL EXPENSES, net:		
Interest expense	179	301
Other financial expenses	42	5
Total financial expenses	221	306
LOSS BEFORE INCOME TAXES	(2,608)	(5,196)
TAX EXPENSES	1	16
NET LOSS	$(2,609)	$(5,212)
NET LOSS PER SHARE – basic and diluted	$(0.32)	$(1.04)
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK USED IN COMPUTING NET LOSS PER SHARE – basic and diluted	8,042,082	4,991,519

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

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INSPIREMD, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(U.S. dollars in thousands)

	Three months ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,609)	$ (5,212)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	48	75
Impairment of royalties buyout		316
Change in liability for employees right upon retirement	(122)	12
Financial expenses	33	102
Share-based compensation expenses	741	1,029
Loss on amounts funded in respect of employee rights upon retirement, net	1	4
Changes in operating asset and liability items:		
Decrease in prepaid expenses	13	49
Increase in trade receivables	(141)	(84)
Decrease (increase) in other receivables	(62)	81
Decrease in inventory	242	174
Decrease in trade payables	(59)	(244)
Increase (decrease) in other payables and advance payment from customers	50	(924)
Net cash used in operating activities	(1,865)	(4,622)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment		(1)
Amounts gained (funded) in respect of employee rights upon retirement, net	90	(10)
Net cash provided by (used in) investing activities	90	(11)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes withheld in respect of share issuance	(16)	(78)
Net proceeds from issuance of shares and warrants	1,520	12,529
Repayment of long-term loan	(988)	(891)
Net cash provided by financing activities	516	11,560
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1	(41)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,258)	6,886
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,257	6,300
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 1,999	$ 13,186

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

INSPIREMD, INC.
NOTES TO THE CONDENSED 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 coronary and vascular disease. MicroNet, a micron mesh sleeve, is wrapped over a stent to provide embolic protection in stenting procedures. In October 2014, the Company launched a limited market release of its carotid embolic prevention system (CGuard™ EPS), which combines MicroNet and a self-expandable nitinol stent in a single device to treat carotid artery disease. In January 2015, the Company received CE mark approval for the rapid exchange delivery system and launched CGuard in countries in Europe.

The Company's coronary products combining MicroNet and a bare-metal stent (MGuard Prime™ EPS) are 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, 2016, as well as 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™) 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 does not have sufficient resources to fund operations beyond June 2016. 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 condensed 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 condensed 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, 2015, as found in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 28, 2016. The balance sheet for December 31, 2015 was derived from the Company's audited financial statements for the year ended December 31, 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 3 — RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

The new guidance does not affect the recognition and measurement of debt issuance costs. The new guidance became effective during the first quarter of 2016 and was applied on a retrospective basis.

INSPIREMD, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3 — RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (cont.)

As of March 31, 2016 and December 31, 2015, $68,000 and $85,000, respectively were deducted from the carrying value of the “Current maturity of loan” in the condensed consolidated balance sheets.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASC 606, Revenue from contracts with customers. The objective of the new revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services, based on a five step model that includes the identification of the contract with the customer and the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies a performance obligation. The revenue standard is effective for annual periods beginning on or after December 15, 2016.

On July 9, 2015, the FASB approved a one-year deferral of the effective date of Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers,” such that it is effective beginning on or after December 15, 2017 for public entities. Reporting entities may choose to adopt the standard as of the original effective date. The Company is currently evaluating the impact, if any, the adoption of this guidance will have on its consolidated financial statements.

On July 22, 2015, the FASB issued Accounting Standards Update No. 2015-11, “Simplifying the Measurement of Inventory,” which requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out and the retail inventory method are not impacted by the new guidance. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years. Prospective application is required. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") which simplifies certain aspects of the accounting for share-based payments, including accounting for income taxes, classification of awards as either equity or liabilities, classification on the statement of cash flows as well as allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted in any annual or interim period for which financial statements have not yet been issued, and all amendments in the ASU that apply must be adopted in the same period. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements. In addition, the impact on the Company's consolidated financial statements upon adoption is dependent on the Company's share price at option expiration dates and restricted stock vesting dates.

NOTE 4 — EQUITY:

a. On January 26, 2016 the Company entered into an option cancellation and release agreement with certain directors, the CEO and CFO. See Note 9.

b. On March 21, 2016, the Company sold 2,933,051 shares of its common stock and warrants to purchase 1,466,526 shares of common stock in concurrent underwritten public offering and private placement. The common stock was sold at a price of $0.59 per share and each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the offering. The warrants, which are classified as equity, are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. This offering resulted in gross proceeds to the Company of approximately $1.7 million ($1.4 million after deducting underwriting discount, placement agent fees and other offering expenses).

INSPIREMD, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 4 — EQUITY (cont.)

In connection with the underwritten public offering and the Private Placement in March 2016, on March 21, 2016, the Company issued to the underwriter and placement agent a five-year warrant to purchase up to 146,653 shares of common stock at an exercise price of $0.7375 per share. The warrants, which are classified as equity, are exercisable at any time during the period commencing six months following the date of issuance and ending five years from the date of issuance.

NOTE 5 — NET LOSS PER SHARE:

Basic and diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net loss per share excludes potential share issuances of common stock upon the exercise of share options, warrants, convertible loans and restricted stocks as the effect is anti-dilutive.

The total number of shares of common stock related to outstanding options, warrants, convertible loans and restricted stock excluded from the calculations of diluted loss per share were 5,913,420 and 5,041,110 for the three month periods ended March 31, 2016 and 2015, respectively.

NOTE 6 — FAIR VALUE MEASURMENT:

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. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy. The fair value of the loan received on October 23, 2013 (the “Loan”) approximated its carrying amount since it bears interest at rates that approximate current market rates.

As of March 31, 2016 and December 31, 2015, allowance for doubtful accounts was $359,000 and $346,000, respectively.

NOTE 7 — INVENTORY:

	March 31, 2016	December 31, 2015
	($ in thousands)	
Finished goods	$ 116	$ 301
Work in process	276	307
Raw materials and supplies	119	145
	$ 511	$ 753

NOTE 8 — ACCOUNTS PAYABLE AND ACCRUALS — OTHER:

	March 31, 2016	December 31, 2015
	($ in thousands)	
Employees and employee institutions	$599	$ 412
Accrued vacation and recreation pay	253	377
Accrued clinical trial expenses	523	582
Accrued expenses	678	552
Provision for sales commissions	84	80
Taxes payable	2	3
	$2,139	$ 2,006

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INSPIREMD, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 9 — RELATED PARTIES:

a. On January 16, 2016, the Board of Directors appointed a new director as a Vice Chairman of the Board, effective as of January 22, 2016, with a term expiring at the Company's 2017 annual meeting of stockholders. In connection with his appointment, the new director was granted an option to purchase 780,000 shares of the Company's common stock on April 30, 2016 at an exercise price equal to the closing fair market value of the Common Stock on the date of grant on April 30, 2016, subject to the terms and conditions of the 2013 Plan and the 2011 Plan. Options to purchase 195,000 shares of Common Stock vest and become exercisable immediately upon the time of grant, and, until all 780,000 options shall have vested, options to purchase 195,000 shares of common stock will vest and become exercisable each time upon (i) the Company raising at least $15 million through an equity offering; (ii) the Company's market cap becoming equal to or greater than $25 million; (iii) the Company receiving research coverage by three new analysts at a leading investment bank; or (iv) the tripling of the Company's market cap from the date of appointment. Any of the foregoing conditions, if achieved following the director's appointment but prior to April 30, 2016, will be deemed satisfied on the date of grant. However, in the event (i) of the director's death or permanent disability, (ii) a change in control (as defined in the Plan) or (iii) if the director is asked to resign for any reason other than cause (as defined in the Company's form of Nonqualified Stock Option Agreement under its Plan), the options shall vest immediately in full. The options have a term of 10 years from the date of grant and may be exercised for either cash or on a cashless basis. The fair value of the options will be determined on April 30, 2016. Some of the above events involve performance conditions and some involve market conditions. For grants that involve performance conditions, the expense will be recognized on a cumulative basis only if the targets will be achieved. For grants that involve market conditions, the expense will be recognized over the expected period for the conditions to occur.

b. On January 21, 2016, the Company and the Company's CEO, entered into a fourth amendment to the CEO's Employment Agreement by and between the Company and the CEO, in order to, among other things, (i) modify the term of the CEO's employment to end on the earlier of June 30, 2016 or the date upon which a new president and/or chief executive officer (or executive performing a similar role) commences employment with the Company (or, if such individual is promoted internally, the date such individual is promoted to the position of president and/or chief executive officer); and (ii) provide that, during the remaining term of his employment, the CEO will receive (A) 50% of his base salary in cash payments, for all days that the CEO works during the remaining term of his employment, at the monthly rate of $18,750, payable in accordance with the Company's regular payroll practices, and (B) a lump-sum payment equivalent to 50% of the CEO's base salary through June 30, 2016, at the monthly rate of $18,750, payable within 20 business days from the earlier of (x) the Company raising an aggregate of $5 million from investors, or (y) June 30, 2016.

On January 26, 2016 the Company entered into an option cancellation and release agreement with certain directors, the CEO and CFO (“the Optionholders”), pursuant to which the parties agreed to cancel options to purchase an aggregate of 422,443 shares of common stock of the Company previously granted to each of the Optionholders. For accounting purpose the cancellation was treated as a settlement for no consideration and accordingly all remaining unrecognized compensation cost amounting to approximatly $800,000 was recognized.

NOTE 10 — COMMITMENT AND CONTINGENT LIABILITIES:

a. Litigation

In December 2012, a former service provider of InspireMD GmbH filed a claim with the Labor Court in Buenos Aires, Argentina in the amount of $193,378 plus interest (6% in dollars or 18.5% in pesos), social benefits, legal expenses and fees (25% of the award) against InspireMD Ltd. and InspireMD GmbH. The Company settled with the plaintiff in the amount of $80,000 plus $20,000 for legal fees, which was approved by the Labor Court and paid by the Company in March 2016.

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

INSPIREMD, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 10 — COMMITMENT AND CONTINGENT LIABILITIES: (cont.)

In November 2015, the Company received written communication from a service provider to remit payment amounting to $1,965,000. Given the preliminary stage, the Company's management and legal counsel cannot estimate the outcome of any legal proceedings or settlements, however believes that neither a court loss nor settlement are probable.

On April 26, 2016 an alleged finder of the Company filed 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 that he claims are owed to him. 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.

b. Liens and pledges

The Company's obligations under the Loan (as defined in Note 6) were secured by Israeli security agreements and deposit account control agreements on all of the assets and properties of the Company and InspireMD Ltd., other than the intellectual property of the Company and InspireMD Ltd.

NOTE 11 — ENTITY WIDE DISCLOSURE:

The Company operates in one operating segment.

Disaggregated financial data is provided below as follows:

(1) Revenues by geographic area and

(2) Revenues from principal customers.

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

By geographic areas:

	Three months ended March 31,	
	2016	2015
	($ in thousands)	
Germany	$ 160	$ 131
Italy	155	28
Spain	63	45
Belarus	20	78
Other	165	195
	$ 563	$ 477

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INSPIREMD, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 11 — ENTITY WIDE DISCLOSURE: (cont.)

By product:

	Three months ended March 31,	
	2016	2015
	($ in thousands)	
CGuard	$ 320	$ 60
MGuard*	243	417
	$ 563	$ 477

* The three months ended March 31, 2015 include revenue from sales of both MGuard Prime and MGuard.

The following is a summary of revenues by principal customers:

	Three months ended March 31,	
	2016	2015
Customer A	22 %	0 %
Customer B	17 %	2 %
Customer C	11 %	9 %
Customer D	6 %	21 %
Customer E	4 %	16 %

All tangible long-lived assets are located in Israel.

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InspireMD, Inc.

346,154 Shares of Series B Convertible Preferred Stock

34,615,400 Shares of Common Stock Underlying the Series B Convertible Preferred Stock

Warrants to Purchase 34,615,400 Shares of Common Stock

34,615,400 Shares of Common Stock Underlying the Warrants

, 2016

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than placement agent fees and expenses, payable by us in connection with the sale and distribution of the Series B Preferred Stock being registered. All amounts are estimates except for the Securities and Exchange Commission registration fee and the FINRA filing fee.

Securities and Exchange Commission Registration Fee	$ 4,232.98
FINRA Filing Fee	$ 6,904.10
Accounting Fees and Expenses	$ 17,500
Legal Fees and Expenses	$ 100,000
Transfer Agent and Registrar Fees and Expenses	$ 5,000
Printing and Engraving Expenses	$ 25,000
Miscellaneous Fees and Expenses	$ —
Total	$ 158,637.08

Item 14. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware provides, in general, that a corporation incorporated under the laws of the State of Delaware, as we are, may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than a derivative action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. In the case of a derivative action, a Delaware corporation may indemnify any such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification will be made in respect of any claim, issue or matter as to which such person will have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or any other court in which such action was brought determines such person is fairly and reasonably entitled to indemnity for such expenses.

Our certificate of incorporation and bylaws provide that we will indemnify our directors, officers, employees and agents to the extent and in the manner permitted by the provisions of the General Corporation Law of the State of Delaware, as amended from time to time, subject to any permissible expansion or limitation of such indemnification, as may be set forth in any stockholders' or directors' resolution or by contract. Any repeal or modification of these provisions approved by our stockholders will be prospective only and will not adversely affect any limitation on the liability of any of our directors or officers existing as of the time of such repeal or modification.

We are also permitted to apply for insurance on behalf of any director, officer, employee or other agent for liability arising out of his actions, whether or not the General Corporation Law of the State of Delaware would permit indemnification.

We are also permitted to apply for insurance on behalf of any director, officer, employee or other agent for liability arising out of his actions, whether or not the DGCL would permit indemnification.

Item 15. Recent Sales of Unregistered Securities.

On June 25, 2013, we issued 6,780 shares of our common stock pursuant to the InspireMD, Inc. 2011 UMBRELLA Option Plan in connection with the settlement of a dispute with a former consultant. These shares of common stock were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

On October 23, 2013, in connection with that certain Loan and Security Agreement, dated October 23, 2014, between us and Hercules Capital, Inc. (formerly Hercules Technology Growth Capital, Inc.), pursuant to which Hercules Capital, Inc. made a term loan to us in the aggregate amount of $10 million, we issued Hercules Capital, Inc. a warrant to purchase 16,836 shares of our common stock at an exercise price of $29.70 per share. This warrant was not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

On March 21, 2016, we sold to certain of our officers and directors 1,033,051 shares of our common stock and warrants to purchase 516,526 shares of our common stock in a private placement. The common stock was sold at a price of $0.59 per share, and each purchaser received a warrant to purchase one half of one share of common stock for each share of common stock that it purchased in the private placement. The warrants are exercisable immediately and have a term of exercise of 5 years from the date of issuance and an exercise price of $0.59. We received gross proceeds from the private placement of approximately $0.6 million, before deducting placement agent fees and estimated offering expenses payable by us. These shares of common stock were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

In connection with the private placement, on March 21, 2016, we issued to Dawson James Securities, Inc., the exclusive placement agent in the private placement, warrants to purchase 51,653 shares of our common stock. The placement agent’s warrants will be exercisable at any time and from time to time, in whole or in part, during the period commencing on September 17, 2016 and ending on March 16, 2021, at $0.7375 per share. These warrants were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

On June 13, 2016, in connection with an amendment entered into on June 13, 2016, to the Loan and Security Agreement, dated October 23, 2013, between us and Hercules Capital, Inc., pursuant to which the parties agreed to a deferral of payment of principal for a four month period beginning May 1, 2016, subject to the satisfaction of certain interest only period extension conditions, we issued Hercules Capital, Inc. a warrant to purchase up to the number of shares of common stock equal to $182,399.30, divided by (i) the lowest effective price per share, determined on a common stock-equivalent basis, for which our equity securities are sold and issued by us in an equity financing in which we receive unrestricted aggregate gross cash proceeds of at least $7.5 million, subject to adjustment from time to time in accordance with the terms of the warrant agreement, or (ii) if such equity financing shall not have been consummated on or before July 30, 2016, or if, prior to the consummation of such equity financing, there shall be a transaction involving a change of control or our dissolution, liquidation or winding-up, then the closing price of our common stock on June 13, 2016, subject to adjustment thereafter from time to time in accordance with the terms of the warrant agreement. This warrant was not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

Exhibit No.	**Description**
1.1*	Form of Placement Agent Agreement
3.1	Amended and Restated Certificate of Incorporation (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)
3.2	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)
3.3	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)
3.4*	Form of Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock
3.5	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)
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)

Exhibit No.	Description
4.2	Rights Agreement dated as of October 22, 2013 between InspireMD, Inc. and Action Stock transfer Corporation, as Rights Agent, including exhibits thereto (incorporated by reference to an exhibit to the Registration Statement on Form 8-A filed with Securities and Exchange Commission on October 25, 2013)
4.3*	Form of Placement Agent Unit Purchase Option
4.4*	Form of Warrant Agent Agreement and Form of Warrant
5.1*	Opinion of Haynes and Boone, LLP
10.1+	Amended and Restated 2011 Umbrella Option Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2011)
10.2+	Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2011)
10.3	License Agreement, by and between Svelte Medical Systems, Inc. and InspireMD Ltd., dated as of March 19, 2010 (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 26, 2011)
10.4+	Employment Agreement, by and between InspireMD Ltd. and Craig Shore, dated as of November 28, 2010 (incorporated by reference to Exhibit 10.21 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2011)
10.5+	Form of Indemnity Agreement between InspireMD, Inc. and each of the directors and executive officers thereof (incorporated by reference to Exhibit 10.22 to Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 26, 2011)
10.6	Agreement by and between InspireMD Ltd. and MeKo Laser Material Processing, dated as of April 15, 2010 (incorporated by reference to Exhibit 10.26 to Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 26, 2011)
10.7	Agreement by and between InspireMD Ltd. and Natec Medical Ltd, dated as of September 23, 2009 (incorporated by reference to Exhibit 10.27 to Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 26, 2011)
10.8+	Stock Award Agreement, dated as of November 16, 2011, by and between InspireMD, Inc. and Sol J. Barer, Ph.D. (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2011)
10.9+	Nonqualified Stock Option Agreement, dated as of November 16, 2011, by and between InspireMD, Inc. and Sol J. Barer, Ph.D. (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2011)
10.10	

	Form of April 2012 $72.00 Warrant (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2012)
10.11	First Amendment to License Agreement, dated October 20, 2012, by and among Svelte Medical Systems, Inc., InspireMD, Inc. and InspireMD Ltd. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2012)
10.12+	Second Amendment to the InspireMD, Inc. Amended and Restated 2011 UMBRELLA Option Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on December 26, 2012)

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Exhibit No.	Description
10.13+	Employment Agreement, dated January 3, 2013, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2013)
10.14+	Restricted Stock Award Agreement, dated January 3, 2013, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2013)
10.15	Form of $30.00 Warrant (incorporated by reference to Exhibit 10.76 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 9, 2013)
10.16	Exchange and Amendment Agreement, dated April 9, 2013, by and among InspireMD, Inc., holders of convertible debentures and holders of $72.00 warrants issued in April 2012 (incorporated by reference to Exhibit 10.75 to Amendment No. 6 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 9, 2013)
10.17	Letter Agreement, dated as of April 15, 2013, by and among InspireMD, Inc. and each holder of Senior Secured Convertible Debentures Due April 15, 2014 (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 15, 2013)
10.18	Form of Amended $30.00 Warrant (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 15, 2013)
10.19+	First Amendment to Employment Agreement, dated April 24, 2013, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 26, 2013)
10.20+	First Amendment to Restricted Stock Award Agreement, dated April 24, 2013, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 26, 2013)
10.21	Second Amendment to License Agreement, dated August 22, 2013, by and among Svelte Medical Systems, Inc., InspireMD, Inc. and InspireMD Ltd. (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2013)
10.22	Loan and Security Agreement, dated October 23, 2013, by and among InspireMD, Inc., InspireM.D Ltd and Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)
10.23	Fixed Charge Debenture, dated October 23, 2013, by and among InspireMD, Inc., Inspire M.D Ltd and Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)
10.24	Floating Charge Debenture, dated October 23, 2013, by and among InspireMD, Inc., Inspire M.D Ltd and Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 10.3 to Current

	Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)
10.25	Warrant Agreement, dated October 23, 2013, by and between InspireMD, Inc. and Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)

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Exhibit No.	Description
10.26	Account Control Agreement, dated October 23, 2013, among InspireMD, Inc., Hercules Technology Growth Capital, Inc. and Bank Leumi USA (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2013)
10.27+	InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2013)
10.28+	Consulting Agreement, dated February 25, 2014, by and between InspireMD, Inc. and James Barry (incorporated by reference to Exhibit 10.55 to Transition Report on Form 10-KT filed with the Securities and Exchange Commission on February 26, 2014)
10.29+	Amended and Restated Employment Agreement, dated May 5, 2014, by and between InspireMD, Inc. and Craig Shore (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2014)
10.30+	First Amendment to the InspireMD, Inc. Amended and Restated 2011 UMBRELLA Option Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2014)
10.31+	Form of Incentive Stock Option Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.2 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.32+	Form of Nonqualified Stock Option Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.3 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.33+	Form of Restricted Stock Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.4 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.34+	Form of Restricted Stock Unit Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.5 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.35+	Form of Section 3(i) Stock Option Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (Israeli) (incorporated by reference to Exhibit 99.6 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.36+	Form of Section 102 Capital Gain Stock Option Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (Israeli) (incorporated by reference to Exhibit 99.7 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.37+	Form of Section 102 Capital Gain Restricted Stock Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (Israeli) (incorporated by reference to Exhibit 99.8 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)

10.38+	Form of Stock Option Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (European) (incorporated by reference to Exhibit 99.9 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)

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Exhibit No.	Description
10.39+	Form of Restricted Stock Award Agreement under the InspireMD, Inc. 2013 Long-Term Incentive Plan (European) (incorporated by reference to Exhibit 99.10 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.40+	Form of Stock Option Award Agreement outside the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.11 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 5, 2014)
10.41+	Employment Agreement, dated July 14, 2014, by and between InspireMD, Inc. and James J. Barry, Ph.D. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2014)
10.42	Form of $17.50 Warrant (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2014)
10.43+	Second Amendment to Employment Agreement, dated January 5, 2015, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2015)
10.44+	Amendment to Employment Agreement, dated January 5, 2015, by and between InspireMD, Inc. and James J. Barry, PhD (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2015)
10.45+	First Amendment to Amended and Restated Employment Agreement, dated January 5, 2015, by and between InspireMD, Inc. and Craig Shore (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2015)
10.46+	Amendment Number Two to Employment Agreement, dated February 22, 2015, by and between InspireMD, Inc. and James J. Barry, PhD (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on February 25, 2015)
10.47	Form of $5.50 Warrant (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2015)
10.48+	Third Amendment to Employment Agreement, dated June 29, 2015, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2015)
10.49^	Distribution Agreement, dated August 5, 2015, by and between Penumbra, Inc. and InspireMD, Inc. (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2015)
10.50+	First Amendment to the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 9, 2015)
10.51+	

Offer Letter, between InspireMD, Inc. and Isaac Blech, dated January 16, 2016 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 22, 2016)

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Exhibit No.	Description
10.52+	Fourth Amendment to Employment Agreement, dated January 21, 2016, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on January 22, 2016)
10.53+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and Sol J. Barer (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 28, 2016)
10.54+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and James Barry (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on January 28, 2016)
10.55+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and Michael Berman (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on January 28, 2016)
10.56+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and Paul Stuka (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on January 28, 2016)
10.57+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and Campbell Rogers (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on January 28, 2016)
10.58+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and James Loughlin (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed on January 28, 2016)
10.59+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and Alan Milinazzo (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on January 28, 2016)
10.60+	Option Cancellation and Release Agreement, dated January 26, 2016, by and between InspireMD, Inc. and Craig Shore (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed on January 28, 2016)
10.61+	Third Amendment to Employment Agreement, dated March 28, 2016, by and between InspireMD, Inc. and James J. Barry, PhD (incorporated by reference to Exhibit 10.66 to the Annual Report on Form 10-K filed on March 28, 2016)
10.62	Form of $0.59 Underwritten Warrant (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on March 16, 2016)
10.63	Form of $0.7375 Underwriter Warrant (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on March 16, 2016)

10.64	Form of $0.59 Private Placement Warrant (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K filed with the Securities and Exchange Commission on March 16, 2016)
10.65	Form of $0.7375 Placement Agent Warrant (incorporated by reference to Exhibit 10.7 to Current Report on Form 8-K filed with the Securities and Exchange Commission on March 16, 2016)
10.66	Second Amendment to the InspireMD, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 25, 2016)
10.67+	Fourth Amendment to Employment Agreement, dated June 6, 2016, by and between InspireMD, Inc. and James Barry, Ph.D. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 7, 2016)
10.68	Amendment No.1 to Loan and Security Agreement, dated November 19, 2013, by and among InspireMD, Inc., Inspire M.D Ltd and Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 14, 2016)
10.69	Amendment No.2 to Loan and Security Agreement, dated July 23, 2014, by and among InspireMD, Inc., Inspire M.D Ltd and Hercules Technology Growth Capital, Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 14, 2016)
10.70	Amendment No.3 to Loan and Security Agreement, dated June 13, 2016, by and among InspireMD, Inc., Inspire M.D Ltd and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on June 14, 2016)
10.71	Amendment to Debenture of Fixed Charge, dated June 13, 2016, by and between Inspire M.D Ltd and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on June 14, 2016)
10.72	Amendment to Debenture of Floating Charge, dated June 13, 2016, by and between Inspire M.D Ltd and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on June 14, 2016)
10.73	Warrant Agreement, dated June 13, 2016, by and between InspireMD, Inc. and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed on June 14, 2016)
10.74	Intellectual Property Security Agreement, dated as of June 13, 2016, by and among InspireMD, Inc., several banks and other financial institutions or entities from time to time parties to the Loan and Security Agreement, and Hercules Capital, Inc., as agent (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on June 14, 2016)
10.75	Intellectual Property Security Agreement, dated as of June 13, 2016, by and among Inspire M.D LTD, several banks and other financial institutions or entities from time to time parties to the Loan and Security Agreement, and Hercules Capital, Inc., as agent (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed on June 14, 2016)
10.76	Amendment to Securities Purchase Agreement, dated June 17, 2016, by and among InspireMD, Inc. and the Purchasers identified on the signature pages thereto
21.1	

List of Subsidiaries (incorporated by reference to Exhibit 21.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2011)

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Exhibit No.	Description
23.1*	Consent of Kesselman & Kesselman, Independent Registered Public Accounting Firm
23.2*	Consent of Haynes and Boone, LLP (included in Exhibit 5.1)
24.1	Power of Attorney
101.NS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

\+ Management contract or compensatory plan or arrangement.

^ Confidential treatment has been granted with respect to certain portions of this exhibit by the Securities and Exchange Commission under a confidential treatment request pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(b) Financial Statement Schedules

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

Item 17. Undertakings.

a. The undersigned registrant hereby undertakes:

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

i. To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

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

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

provided, however, that paragraphs (a)(1)(i), (ii), and (iii) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) that are incorporated by reference in the registration statement, or, as to a registration statement.

2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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

4. That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

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i. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

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

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

b. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

c. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

d. The undersigned registrant hereby undertakes that:

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No.5 to registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Boston, Commonwealth of Massachusetts on June 24, 2016.

INSPIREMD, INC.

By: /s/ James Barry
Name: James Barry, Ph.D.
Title: Chief Executive Officer

In accordance with the requirements of the Securities Act of 1933, this Amendment No.5 to registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James Barry	President, Chief Executive Officer and Director	June 24, 2016
James Barry	(principal executive officer)	
/s/ Craig Shore	Chief Financial Officer, Chief Administrative Officer Secretary and	June 24, 2016
Craig Shore	Treasurer (principal financial and accounting officer)	
*	Chairman of the Board of Directors	June 24, 2016
Sol J. Barer, Ph.D.		
*	Vice Chairman of the Board of Directors	June 24, 2016
Isaac Blech		
*	Director	June 24, 2016
Michael Berman		
*	Director	June 24, 2016
Campbell Rogers, M.D.		

*	Director	June 24, 2016
Paul Stuka		

*By: /s/ Craig Shore
Craig Shore
Attorney-in-Fact

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