INTROGEN THERAPEUTICS INC
Form 10-Q
August 14, 2003

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UNITED STATES SECURITIES
AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-21291

INTROGEN THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**74-2704230**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

301 Congress Avenue, Suite 1850
Austin, Texas 78701
(Address of principal executive offices, including zip code)

(512) 708-9310
(Registrant s telephone number, including area code)

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

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

As of August 11, 2003, the registrant had 23,646,002 shares of its common stock, $0.001 par value per share, issued and outstanding.

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INTROGEN THERAPEUTICS, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	December 31, 2002	June 30, 2003
		(Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 23,467	$ 26,656
Prepaid expenses and other current assets	812	409
Total current assets	24,279	27,065
Property and equipment, net of accumulated depreciation of $8,228 and $8,974, respectively	8,742	7,994
Other assets	295	292
Total assets	$ 33,316	$ 35,351
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,774	$ 1,399
Accrued liabilities	1,997	2,607
Deferred revenues from affiliate	69	35
Current portion of capital lease obligations and notes payable	1,587	1,331
Total current liabilities	5,427	5,372
Capital lease obligations, net of current portion	125	85
Notes payable, net of current portion	7,310	6,937
Deferred revenue, long-term	619	751
Total liabilities	13,481	13,145
Commitments and contingencies		
Stockholders Equity:		
Series A non-voting convertible preferred stock, $.001 par value, 100 shares authorized, 100 shares issued and outstanding	1	1
Common stock, $.001 par value; 50,000 shares authorized, 21,446 and 23,646 shares issued and outstanding, respectively	21	24
Additional paid-in capital	94,430	105,651
Deferred compensation	(974)	(334)
Accumulated deficit	(73,643)	(83,136)
Total stockholders equity	19,835	22,206

Total liabilities and stockholders equity	$ 33,316	$ 35,351

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

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INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Contract services, grant and other revenue	$ 322	$ 143	$ 551	$ 293
Costs and expenses:				
Research and development	5,805	2,957	12,504	7,299
General and administrative	1,679	1,808	3,434	3,195
Total operating expenses	7,484	4,765	15,938	10,494
Loss from operations	(7,162)	(4,622)	(15,387)	(10,201)
Interest income	166	475	357	536
Interest expense	(203)	(161)	(422)	(330)
Other income	332	254	649	502
Net loss	$ (6,867)	$ (4,054)	$ (14,803)	$ (9,493)
Net loss per share, basic and diluted	$ (0.32)	$ (0.19)	$ (0.69)	$ (0.44)
Shares used in computing basic and diluted net loss per share	21,463	21,851	21,457	21,679

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

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INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

(UNAUDITED)

	Six Months Ended June 30,	
	2002	**2003**
Cash flows from operating activities:		
Net loss	$ (14,803)	$ (9,493)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	959	739
Compensation related to issuance of stock options	741	1,041
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	63	45
Decrease (increase) in other assets	107	361
Increase (decrease) in accounts payable and accrued liabilities	1,281	235
Increase (decrease) in deferred revenue	414	98
Net cash used in operating activities	(11,238)	(6,974)
Cash flows from investing activities:		
Purchases of property and equipment, net of retirements	(76)	10
Purchases of short-term investments	(37,878)	
Maturities of short-term investments	23,389	
Net cash provided (used in) by investing activities	(14,565)	10
Cash flows from financing activities:		
Proceeds from sale of common stock	10	10,823
Borrowings under capital lease obligations and notes payable		141
Principal payments under capital lease obligations and notes payable	(728)	(811)
Net cash provided by (used in) financing activities	(718)	10,153
Net increase (decrease) in cash	(26,521)	3,189
Cash, beginning of period	37,397	23,467
Cash, end of period	$ 10,876	$ 26,656
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 415	$ 330

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

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INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

See the Overview section below in Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of our business.

We have not generated any significant revenues from unaffiliated third parties, nor is there any assurance of future product revenues. Our research and development activities involve a high degree of risk and uncertainty. Our ability to successfully develop, manufacture and market our proprietary products is dependent upon many factors. These factors include, but are not limited to, the need for additional financing, the reliance on collaborative research and development arrangements with corporate and academic affiliates, and the ability to develop manufacturing, sales and marketing experience. Additional factors include uncertainties as to patents and proprietary technologies, competitive technologies, technological change and risk of obsolescence, development of products, competition, government regulations and regulatory approval, and product liability exposure, as well as those factors set forth below under Factors Affecting Future Operating Results. As a result of the aforementioned factors and the related uncertainties, there can be no assurance of our future success.

2. Basis of Presentation

The accompanying condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, accordingly, do not include all of the information and footnotes required under generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, all accounting entries considered necessary for a fair presentation have been made in preparing these financial statements. Operating results for the three and six month periods ended June 30, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto as of December 31, 2002, and for the year then ended, included in our Annual Report on Form 10-K as filed with the SEC on March 31, 2003.

3. Net Loss Per Share

Net loss per share is computed using the weighted average number of shares of common stock outstanding. Due to losses incurred in all periods presented, the shares associated with stock options, warrants and non-voting convertible preferred stock are not included because they are anti-dilutive.

4. Stock Based Compensation

For stock options granted to our directors and employees, we record compensation using the intrinsic value method allowed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, and as set forth under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as clarified by Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation. Under this method, for stock options granted to our directors and employees, we record compensation expense based on the excess of the market value of our stock over the exercise price of the stock option on the date of the stock option grant. If the exercise price of the stock option is equal to or less than the market value of our stock on the date of grant, we do not record compensation expense. For stock options granted to persons other than our directors and employees, we record compensation expense based on the fair value method and the Black-Scholes option pricing model. Under both methods, if the compensation expense relates to a stock option that vests over future periods, we defer that expense and amortize that deferral over the vesting period of the stock option, which is generally four years.

For stock options granted to our directors and employees, we have estimated the fair value of options granted using the Black-Scholes option pricing model. Significant weighted average assumptions used to estimate fair value for all years include risk-free interest rates ranging from 3.6 percent to 6.1 percent, expected stock option lives of seven to ten years, no expected dividends and volatility factors ranging from 58.0 percent to 110.8 percent. Had compensation expense for stock options granted to our directors and employees been determined using the Black-Scholes option pricing model allowed under SFAS No. 123, our net loss would have been increased to the following pro forma amounts (in thousands, except per share information):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Net loss, as reported	$ (6,867)	$ (4,054)	$ (14,803)	$ (9,493)
Add: Stock-based director and employee compensation expense included in reported net loss determined using the intrinsic value method	352	556	741	843
Deduct: Stock-based director and employee compensation expense determined using the fair value method	(599)	(2,190)	(1,094)	(2,568)
Pro forma net loss	(7,114)	(5,688)	(15,156)	(11,218)
Earnings per share:				
Basic and diluted, as reported	$ (0.32)	$ (0.19)	$ (0.69)	$ (0.44)
Basic and diluted, pro forma	$ (0.33)	$ (0.26)	$ (0.71)	$ (0.52)

5. Investment in VirRx, Inc.

We have an agreement with VirRx, Inc. (VirRx) to purchase $150,000 of VirRx Series A Preferred Stock on the first day of each quarter through January 1, 2006. We purchased $150,000 and $300,000 of this stock for cash during the three and six months ended June 30, 2003, respectively. VirRx is required to use the proceeds from these stock sales in accordance with the terms of a collaboration and license agreement between VirRx and us for the development of VirRx s technologies. We may unilaterally terminate this collaboration and license agreement with 90 days prior notice, which would also terminate our requirement to make any additional stock purchases. For additional discussion of our agreements with VirRx, see Note 6 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002, filed with the SEC on March 31, 2003.

6. Sale of Common Stock

In June 2003, we sold 2.0 million shares of our common stock for an aggregate purchase price of $11.5 million to selected institutional investors through a private placement pursuant to Regulation D promulgated under the Securities Act of 1933, as amended. Our net proceeds from this transaction, after related fees and expenses, were $10.8 million. In connection with this sale, we issued warrants to purchase 400,000 shares of our common stock at $7.89 per share. These warrants are exercisable at any time by the warrant holders through June 2008. Beginning in June 2005, we may force the exercise of these warrants if the average closing market price of our common stock during any 20 consecutive trading days is greater than $15.78 per share.

7. Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*, (FIN 46). FIN 46 requires the consolidation of entities in which an enterprise absorbs a majority of another entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The consolidation requirements of FIN 46 apply to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. The Company is still evaluating the potential impact, if any, that the adoption of FIN 46 may have.

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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included in this Quarterly Report on Form 10-Q. The discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on our current expectations and entail various risks and uncertainties. Our actual results could differ materially from those projected in the forward-looking statements as a result of various factors, including those set forth below under Factors Affecting Future Operating Results.

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Overview

Introgen Therapeutics, Inc. was incorporated in Delaware on June 17, 1993. We are a leading developer of biopharmaceutical products using non-integrating gene agents designed to induce therapeutic protein expression for the treatment of cancer and other diseases. Our drug discovery and development programs have resulted in innovative approaches by which physicians may use genes to initiate therapeutic protein production. Genes provide instructions for the manufacture of proteins in a cell. In the Introgen approach, genes are used as the means of introducing into the target cancer cells the necessary amounts of normal cancer fighting proteins that act to overpower the cancer cell. Thus, rather than acting to repair or replace aberrant or missing genes and thereby creating a permanent, long-term change to the patient s genome, our products work in a different manner by targeting genes formulated to act as pharmacologic agents to engage molecular targets. The resultant proteins engage their normal molecular targets or receptors to produce a specific therapeutic effect. Our lead product candidate, ADVEXIN® therapy, combines the p53 gene with an adenoviral gene delivery system that we have developed and extensively tested. The p53 gene is one of the most potent members of a group of naturally occurring tumor suppressor genes, which act to kill cancer cells, arrest cancer cell growth and protect cells from becoming cancerous.

We are conducting pivotal Phase 3 clinical trials of ADVEXIN therapy, both by itself and in combination with chemotherapy, in advanced squamous cell cancer of the head and neck. Pivotal Phase 3 clinical trials are efficacy trials, which are usually followed by the filing of an application with the United States Food and Drug Administration (FDA) to market the product being tested.

We have completed a Phase 2 clinical trial of ADVEXIN therapy administered as a complement with radiation therapy in non-small cell lung cancer. Phase 2 trials are efficacy trials. This Phase 2 trial showed that approximately 60 percent of patients primary tumors regressed or disappeared after the combination therapy, as assessed by both biopsies and by CT scans three months after treatment. Moreover, ADVEXIN therapy administration did not appear to increase the side effects caused by radiation treatment. These data were published in the January 2003 issue of the journal *Clinical Cancer Research*. We are reviewing future development plans for this indication.

We are conducting a Phase 2 clinical trial of ADVEXIN therapy combined with systemic chemotherapy for the treatment of breast cancer. Interim results of this trial were published in June 2003 at the annual meeting of the American Society of Clinical Oncology. These results indicated that in patients with locally advanced breast cancer, ADVEXIN therapy can be safely combined with a two-drug standard chemotherapy regimen and that 90 percent of the patients had objective responses to the therapy.

We are conducting a Phase 1-2 clinical trial of ADVEXIN therapy for the treatment of advanced unresectable squamous cell esophageal cancer. The study protocol was developed and is sponsored by investigators at Chiba University in Japan. Preliminary results from this trial indicate ADVEXIN therapy can be safely administered and that a positive biological effect resulted from the expression of the p53 protein. These results were published in June 2003 at the meeting of the American Society of Clinical Oncology. Of the first eight patients evaluated to date, one patient was observed to have minor tumor regression following ADVEXIN therapy injections.

We are conducting Phase 1 clinical trials, or safety trials, of ADVEXIN therapy in other types of cancer. In a Phase 1 trial for the treatment of bronchoalveolar cancer, a form of non-small cell lung cancer, in which ADVEXIN therapy is administered directly into the airway leading to the diseased lung, we noted the therapy was well-tolerated in all 26 patients treated, that there was an improved ability to breathe in 20 percent of the patients who were able to be evaluated and that the disease stabilized and did not continue to grow in a majority of those patients. This trial was conducted under our Cooperative Research and Development Agreement with the National Cancer Institute (NCI).

We and the NCI will conduct a Phase 1-2 clinical trial in which ADVEXIN therapy will be administered in the form of an oral rinse or mouthwash. This trial will be the first to investigate the cancer prevention effect of ADVEXIN therapy on oral lesions that have a high risk of developing into cancer. Currently, there are no treatments for such cancer prevention approved by the FDA.

As a supplement to our gene-induced therapeutic protein programs, we are developing INGN 225 using ADVEXIN therapy to create a highly specific therapeutic cancer vaccine that stimulates a patient s particular immune cell known as a dendritic cell. Recently published research in *Current Opinion in Drug Discovery & Development* concluded that ADVEXIN therapy can be used with a patient s isolated dendritic cells as an antigen delivery and immune enhancing therapeutic strategy. Preclinical testing has shown that the immune system can recognize and kill tumors after treatment with ADVEXIN therapy stimulated dendritic cells. We believe ADVEXIN therapy applied in this manner could have broad utility as a prophylaxis for cancer progression in patients with

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solid cancers. A Phase 1 trial has been initiated to treat patients with small-cell lung cancer using INGN 225 after treatment with standard chemotherapy.

To date, clinical investigators at clinical sites in North America, Europe and Japan have treated hundreds of patients with ADVEXIN therapy, establishing a large safety database. We hold the worldwide rights for pre-clinical and clinical development, manufacturing, marketing and commercialization of ADVEXIN therapy. ADVEXIN therapy for head and neck cancer is designated as an orphan drug under the Orphan Drug Act, which gives us seven years of marketing exclusivity for ADVEXIN therapy if approved by the FDA.

We are developing additional gene-induced therapeutic protein agents that we believe may be effective in treating certain cancers. These additional therapeutic protein agents include those based on several genes, including the mda-7, FUS-1 and BAK genes, as well as additional vector technologies for delivering the gene-based products efficiently into target cells.

Our INGN 241 product candidate, which combines the mda-7 gene with our adenoviral vector system, is undergoing safety and efficacy testing in a Phase 1-2 clinical trial, with one of the objectives also being to determine if this technology displays anti-tumor activity. This trial has demonstrated that in patients with solid tumors, INGN 241 is well tolerated, is biologically active, displays minimal toxicity associated with its use and can lead to tumor regression. Preclinical studies have demonstrated that INGN 241 works to kill tumor cells directly and simultaneously stimulates the immune system, known as cytokine activity, to kill metastatic tumor cells through multiple mechanisms in a variety of cancers. These studies have shown that the mda-7 protein produced by INGN 241 may play an important role in controlling the growth of tumors, which resulted in the designation of mda-7 as interleukin-24, or IL-24. Preclinical studies also suggest INGN 241 can be effectively combined with radiation therapy and may be useful in enhancing the effects of such therapy.

Preclinical studies have shown that gene delivery of FUS-1, our INGN 401 product candidate, which we exclusively license from The University of Texas M. D. Anderson Cancer Center, using either adenoviral or non-viral gene transfer, significantly inhibits the growth of tumors and greatly reduces the metastatic spread of lung cancer in animals. A Phase 1 trial is ongoing for INGN 401 in patients with advanced non-small cell lung cancer who have previously been treated with chemotherapy.

We are investigating other vector technologies for delivering gene-based products into targeted cells. Through our strategic collaboration with VirRx, Inc., we are developing INGN 007, a replication-competent viral therapy that over-expresses an adenoviral gene and causes rapid disruption of tumor cells in which the adenovirus replicates. Preclinical testing indicates that INGN 007 over-expresses a gene that allows the vector to saturate the entire tumor and to eradicate cancer in animal models. We anticipate pursuing clinical confirmation as to whether this self-amplifying delivery system can complement our existing adenoviral gene delivery system, which is replication disabled, in selected therapeutic scenarios.

We believe our research and development expertise gained from our gene-induced protein therapies for cancer is also applicable to other diseases that, like cancer, result from cellular dysfunction and uncontrolled cell growth. As a result, we are conducting research in collaboration with medical institutions to understand the safety and effectiveness of our gene-induced protein therapy product candidates in the treatment of diseases such as rheumatoid arthritis. In addition, we have developed a variety of technologies, which we refer to as enabling technologies, for administering gene-based products to patients and enhancing the effects of these products. We also have specialized manufacturing expertise and a manufacturing facility to support our continued product development and commercialization efforts.

As a supplement to our gene-induced therapeutic protein programs, we are evaluating the development of mebendazole, our first small molecule product candidate, which we refer to as INGN 601. The use of the mebendazole compound is approved by the FDA for the oral treatment of parasitic diseases. Pre-clinical studies suggest that mebendazole may also be an effective treatment of cancer. The results of pre-clinical studies involving mebendazole and lung cancer are published in the January 2003 edition of *Molecular Cancer Therapeutics*. We are working with The University of Texas M. D. Anderson Cancer Center to further evaluate development of this molecule as a cancer treatment.

We place substantial emphasis on developing and maintaining a strong intellectual property program. We own or exclusively control numerous patents and pending patent applications in the United States and elsewhere that cover ADVEXIN therapy and INGN 241 (mda-7) therapy in particular, adenoviral p53 and adenoviral mda-7 in general, clinical applications of adenoviral and other forms of p53 and mda-7, and adenoviral production. Certain of our patents are licensed from The University of Texas System, Columbia University and Aventis Pharmaceuticals, Inc. The patents directed to clinical applications of p53 broadly cover the use of p53 in combination with standard chemotherapy and clinical therapy with adenoviral p53 in general. Our adenoviral production patent

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position is of particular potential commercial importance in that it covers most methods currently in use by us and others for commercial scale adenoviral production and purification processes. We have recently been successful in having certain European patents held by our competitors revoked by the European Patent Office, subject to appeal by the patent holders. In addition to our p53 and mda-7 intellectual property position, we also own or have exclusively licensed rights in a number of other patents and applications directed to the clinical application of various other tumor suppressor genes.

We own and operate a manufacturing facility that we believe complies with the FDA s current Good Manufacturing Practices requirements, commonly known as CGMP requirements. We have produced ADVEXIN therapy in this facility for use in our Phase 1, 2 and 3 clinical trials. The design of the facility and the processes operated in the facility have been reviewed with the FDA. Our work to validate our manufacturing processes in accordance with FDA regulations is ongoing. We plan to use this facility for our market launch of ADVEXIN therapy. We have produced over 20 batches of ADVEXIN therapy clinical material, including all clinical material used in our Phase 2 and Phase 3 clinical trials. In addition, we have entered into agreements with third parties under which we have provided process development and manufacturing services related to products they are developing. We have also produced INGN 241 in a separate facility for use in our Phase 1-2 clinical trials.

Since our inception in 1993, we have used our resources primarily to conduct research and development activities for ADVEXIN therapy and, to a lesser extent, for other product candidates. At June 30, 2003, we had an accumulated deficit of approximately $83.1 million. We anticipate that we will incur losses in the future that may be greater than losses incurred in prior periods. At June 30, 2003, we had cash and cash equivalents of $26.7 million. During the six months ended June 30, 2003, we used $7.0 million of cash for operating activities. While we implemented measures during the six months ended June 30, 2003 to reduce the amount of cash used in our operating activities, our cash usage rate could increase in future periods as we continue our ADVEXIN therapy clinical trials, prepare regulatory documentation for product application submissions to the FDA and conduct our research and development of various other technologies,. Currently, we earn revenue from federal research grants, contract services and process development activities, the lease of a portion of our facilities to M. D. Anderson Cancer Center and interest income on cash placed in short-term, investment grade securities. We may raise additional funds through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements. We do not know whether such additional financing will be available when needed, or on terms favorable to us or our stockholders.

In June 2003, we sold 2.0 million shares of our common stock for an aggregate purchase price of $11.5 million to selected institutional investors through a private placement pursuant to Regulation D promulgated under the Securities Act of 1933, as amended. Our net proceeds from this transaction, after related fees and expenses, were $10.8 million. In connection with this sale, we issued warrants to purchase 400,000 shares of our common stock at $7.89 per share. These warrants are exercisable at any time by the warrant holders through June 2008. Beginning in June 2005, we may force the exercise of these warrants if the average closing market price of our common stock during any 20 consecutive trading days is greater than $15.78 per share. The shares of common stock issued and issuable upon the exercise of the warrants issued in this transaction have been registered on a registration statement on Form S-3, effective August 7, 2003 (Commission File No. 333-107028).

Summary of Significant Accounting Policies

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. Our cash and cash equivalents include investments in short-term, investment grade securities, which currently consist primarily of United States federal government obligations. These investments are classified as held-to-maturity and are carried at amortized cost. At any point in time, amortized costs may be greater or less than fair value. If investments are sold prior to maturity, we could incur a realized gain or loss based on the fair market value of the investments at the date of sale. We could incur future losses on investments if the investment issuer becomes impaired or the investment is downgraded.

Research and Development Costs. In conducting our clinical trials of ADVEXIN therapy and other product candidates, we procure services from numerous third-party vendors. The cost of these services constitutes a significant portion of the cost of these trials and of our research and development expenses in general. These vendors do not necessarily provide us billings for their services on a regular basis and, accordingly, are often not a timely source of information to determine the costs we have incurred relative to their services for any given accounting period. As a result, we make significant accounting estimates as to the amount of costs we have incurred relative to these vendors in each accounting period. These estimates are based on numerous factors, including, among others, costs set

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forth in our contracts with these vendors, the period of time over which the vendor will render the services and the rate of enrollment of patients in our clinical trials. Using these estimates, we record expenses and accrued liabilities in each accounting period that we believe fairly represent our obligations to these vendors. Actual results could differ from these estimates, resulting in increases or decreases in the amount of expense recorded and the related accrual.

Results of Operations

Comparison of the Quarters Ended June 30, 2003 and June 30, 2002

Revenues

Contract Services, Grant and Other Revenue. We earn contract services revenues from third parties under agreements to provide manufacturing process development services and to produce products for them. We earn contract research services revenue from Aventis Pharmaceuticals Products, Inc., one of our stockholders, under an agreement through which Aventis provides funding for the conduct of a Phase 2 clinical trial of ADVEXIN therapy in breast cancer. We earn grant revenue under research grants from U.S. Government agencies. Total contract services, grant and other revenue was $143,000 for the quarter ended June 30, 2003, compared to $322,000 for the quarter ended June 30, 2002, a decrease of 56%. This decrease was primarily due to a decline in the level of our contract manufacturing activity due to the completion of work under services agreements with certain third parties subsequent to June 30, 2002.

Costs and Expenses

Research and Development. Research and development expenses, excluding compensation related to the issuance of stock options of $58,000 for the quarter ended June 30, 2003 and $107,000 for the quarter ended June 30, 2002, were $2.9 million for the quarter ended June 30, 2003, compared to $5.7 million for the quarter ended March 31, 2002, a decrease of 49%. This decrease was primarily due to cost control programs implemented during the first quarter of 2003 to reduce the rate at which we use cash for operations.

General and Administrative. General and administrative expenses, excluding compensation related to the issuance of stock options of $692,000 for the quarter ended June 30, 2003 and $244,000 for the quarter ended June 30, 2002, were $1.1 million for the quarter ended June 30, 2003, compared to $1.4 million for the quarter ended June 30, 2002, a decrease of 21%. This decrease was primarily due to cost control programs implemented during the first quarter of 2003 to reduce the rate at which we use cash for operations.

Compensation Related to the Issuance of Stock Options. Compensation related to the issuance of stock options was $750,000 for the quarter ended June 30, 2003, compared with $351,000 for the quarter ended June 30, 2002, an increase of 114%. This increase was due to stock options granted in June 2003 to (1) certain members of our Board of Directors for which some of the options have exercise prices below the market value of our common stock at the date of grant and were fully vested upon issuance, and (2) our corporate secretary, who is not a director or employee and for whom options grants are subject to fair value accounting. This increase was offset by a lower expense related to stock options granted in previous periods as deferred compensation related to those options became fully amortized. The amount of compensation expense to be recorded in future periods may increase if additional options are issued at a price below the market price of common stock at the date of grant or are issued to individuals or entities other than employees or directors and may decrease if unvested options for which deferred compensation has been recorded are subsequently forfeited or as previously recorded deferred compensation becomes fully amortized.

Interest Income, Interest Expenses and Other Income

Interest income was $475,000 for the quarter ended June 30, 2003, compared to $166,000 for the quarter ended June 30, 2002, an increase of 186%. Included in the 2003 amount is $425,000 we received from the settlement of litigation related to a decline in the market value of certain commercial paper we held as an investment during the quarter ended March 31, 2001. Excluding the amount from this settlement, interest income for the quarter ended June 30, 2003, was $50,000, which decreased 70% from the amount for the quarter ended June 30, 2002, due to our lower average cash and cash equivalents balances during 2003 and declining interest rates.

Interest expense was $161,000 for the quarter ended June 30, 2003, compared with $203,000 for the quarter ended June 30, 2002, a decrease of 21%. This decrease was due to lower principal amounts upon which interest was incurred in 2003 compared to 2002 as a result of continuing debt service payments on notes payable and capital lease obligations.

Other income was $254,000 for the quarter ended June 30, 2003, compared to $332,000 for the quarter ended June 30, 2002, a

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decrease of 23%. This decrease was due to other income for 2002 period including $84,000 we received from the settlement of intellectual property related litigation.

Comparison of the Six Months Ended June 30, 2003 and June 30, 2002

Revenues

Contract Services, Grant and Other Revenue. We earn contract services revenues from third parties under agreements to provide manufacturing process development services and to produce products for them. We earn contract research services revenue from Aventis Pharmaceuticals Products, Inc., one of our stockholders, under an agreement through which Aventis provides funding for the conduct of a Phase 2 clinical trial of ADVEXIN therapy in breast cancer. We earn grant revenue under research grants from U.S. Government agencies. Contract services, grant and other revenue was $293,000 for the six months ended June 30, 2003, compared to $551,000 for the six months ended June 30, 2002, an decrease of 47%. This decrease was primarily due to a decline in the level of our contract manufacturing activity due to the completion of work under services agreements with certain third parties subsequent to June 30, 2002.

Costs and Expenses

Research and Development. Research and development expenses, excluding compensation related to the issuance of stock options of $122,000 in 2003 and $214,000 in 2002, were $7.2 million for the six months ended June 30, 2003, compared to $12.3 million for the six months ended June 30, 2002, a decrease of 42%. This decrease was primarily due to cost control programs implemented during the first quarter of 2003 to reduce the rate at which we use cash for operations.

General and Administrative. General and administrative expenses, excluding compensation related to the issuance of stock options of $914,000 in 2003 and $527,000 in 2002, were $2.3 million for the six months ended June 30, 2003, compared to $2.9 million for the six months ended June 30, 2002, a decrease of 22%. This decrease was primarily due to cost control programs implemented during the first quarter of 2003 to reduce the rate at which we use cash for operations.

Compensation Related to the Issuance of Stock Options. Compensation related to the issuance of stock options was $1.0 million for the six months ended June 30, 2003, compared with $741,000 for the six months ended June 30, 2002, an increase of 35%. This increase was due to stock options granted in June 2003 to (1) certain members of our Board of Directors for which some of the options have exercise prices below the market value of our common stock at the date of grant and were fully vested upon issuance, and (2) our corporate secretary, who is not a director or employee and for whom options grants are subject to fair value accounting. This increase was offset by a lower expense related to stock options granted in previous periods as deferred compensation related to those options became fully amortized. The amount of compensation expense to be recorded in future periods may increase if additional options are issued at a price below the market price of common stock at the date of grant or are issued to individuals or entities other than employees or directors and may decrease if unvested options for which deferred compensation has been recorded are subsequently forfeited or as previously recorded deferred compensation becomes fully amortized.

Interest Income, Interest Expense and Other Income

Interest income was $536,000 for the six months ended June 30, 2003, compared with $357,000 for the six months ended June 30, 2002, an increase of 50%. Included in the 2003 amount is $425,000 we received from the settlement of litigation related to a decline in the market value of certain commercial paper we held as an investment during the quarter ended March 31, 2001. Excluding the amount from this settlement, interest income for the six months ended June 30, 2003, was $111,000, which decreased 69% compared to the amount for the six months ended June 30, 2002, due to our lower average cash and cash equivalents balances during 2003 and declining interest rates.

Interest expense was $330,000 for the six months ended June 30, 2003, compared with $422,000 for the six months ended June 30, 2002, a decrease of 22%. This decrease was a result of lower principal amounts upon which interest was incurred in 2003 compared to 2002 as a result of continuing debt service payments on notes payable and capital lease obligations.

Other income was $502,000 for the six months ended June 30, 2003, compared to $649,000 for the six months ended June 30, 2002, a decrease of 23%. This decrease was due to other income for the 2002 period including $84,000 we received from the settlement of intellectual property related litigation.

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Liquidity and Capital Resources

We have incurred annual operating losses since our inception, and at June 30, 2003, we had an accumulated deficit of $83.1 million. From inception through June 30, 2003, we have financed our operations using $49.7 million of collaborative research and development payments from Aventis, $32.2 million of net proceeds from our initial public offering in October 2000, $39.4 million of private equity sales to Aventis, $25.4 million of private equity sales, net of offering costs, to others (including $10.8 million from the private sale of our common stock in June 2003), $7.5 million of sales of ADVEXIN therapy product to Aventis for use in later-stage clinical trials, $9.2 million in mortgage financing from banks for our facilities, $4.3 million in leases from commercial leasing companies to acquire equipment pledged as collateral for those leases and $10.5 million from contract services, grants, interest and other income.

At June 30, 2003, we had cash and cash equivalents of $26.7 million, compared with $23.5 million at December 31, 2002. This increase was primarily a result of the sale of 2.0 million shares of our common stock in June 2003 for net proceeds of $10.8 million, offset by the use of $7.6 million of cash to fund our operations. For at least the next two years, we expect to focus our activities primarily on conducting Phase 3 and other clinical trials, conducting data analysis, preparing regulatory documentation submissions to the FDA and conducting pre-marketing activities for ADVEXIN therapy. We also expect to continue our research and development of various other gene-based technologies. The majority of our expenditures over this two-year period will most likely relate to the clinical trials of ADVEXIN therapy and the preparation of regulatory filings for ADVEXIN therapy. These activities may increase the rate at which we use cash in the future as compared to the cash we used for operating activities during the six months ended June 30, 2003. We believe our existing working capital can fund our operations for the next 18 to 24 months, although unforeseen events could shorten that time period. We are taking measures to reduce the amount of cash used in our operating activities. Our existing resources may not be sufficient to support the commercial introduction of any of our product candidates. We may raise additional funds through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements. We do not know whether such additional financing will be available when needed, or on terms favorable to us or our stockholders.

Net cash used in operating activities was $7.0 million for the six months ended June 30, 2003, compared with $11.2 million for the six months ended June 30, 2002. In general, this decrease was primarily due to cost control programs implemented during the first quarter of 2003 to reduce the rate at which we use cash for operations. Specifically, the decrease in cash used was primarily the result of a lower net loss in 2003 compared to 2002, after considering adjustments for depreciation and compensation related to the issuance of stock options, further affected by (1) a larger decrease in other assets in 2003 compared to 2002 primarily due to an increased use of previously prepaid expenses to fund operations, (2) a smaller increase in accounts payable in 2003 compared to 2002 as a result of cost control programs implemented in 2003 resulting in a lower level of obligations to vendors and services providers, and (3) a smaller increase in deferred revenue in 2003 compared to 2002 due to funding received prior to June 30, 2002, for contract manufacturing process development and contract research services being earned subsequent to June 30, 2002, and not being replaced by additional funding for similar services.

Net cash provided by investing activities was $10,000 for the six months ended June 30, 2003, compared to net cash used in investing activities of $14.6 million for the six months ended June 30, 2002. The absence of activity related to short-term investments during the six months ended June 30, 2003, as compared to the six months ended June 30, 2002 was due to our not having any short-term investments during the six months ended June 30, 2003. The decrease in purchases of property and equipment was due to the equipment on hand during the 2003 period being adequate to support our operating requirements, resulting in there being no need to purchase significant equipment during that period. While we have no obligations at this time to purchase significant amounts of additional property or equipment, our needs may change. It may be necessary for us to purchase larger amounts of property and equipment to support our clinical programs and other research, development and manufacturing activities. We may need to obtain debt or lease financing to facilitate such purchases. If that financing is not available, we may need to use our existing resources to fund those purchases, which could result in a reduction in the cash and cash equivalents available to fund operating activities.

Net cash provided by financing activities was $10.2 million for the six months ended June 30, 2003, compared to net cash used in financing activities of $718,000 for the six months ended June 30, 2002. The 2003 amount includes $10.8 million of net proceeds from the sale of 2.0 million shares of our common stock in June 2003. Excluding the proceeds from that sale of common stock, the remaining use of $657,000 for financing activities in 2003 is lower than the comparable amount for 2002 due to the receipt of proceeds under a lease line of credit during 2003 for which there was no similar activity in 2002, offset by higher principal payments on notes payable and capital leases as those obligations continue to amortize.

We have an agreement with VirRx, Inc. (VirRx) to purchase $150,000 of VirRx Series A Preferred Stock on the first day of each quarter through January 1, 2006. We purchased $300,000 of this stock for cash during the six months ended June 30, 2003. We record

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these purchases as research and development expense. VirRx is required to use the proceeds from these stock sales in accordance with the terms of a collaboration and license agreement between VirRx and us for the development of VirRx s technologies. We may unilaterally terminate this collaboration and license agreement with 90 days prior notice, which would also terminate our requirement to make any additional stock purchases. For additional discussion of our agreements with VirRx, see Note 6 to our consolidated financial statements included in our Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission on March 31, 2003.

We have fixed debt service and lease payment obligations under notes payable and capital leases for which the liability is reflected on our balance sheet. We used the proceeds from these notes payable and leases to finance facilities and equipment. Aggregate payments due under these obligations are as follows (in thousands):

Total debt service payments and capital lease payments for the six months ending December 31, 2003	$ 1,085
Total debt service and capital lease payments for the year ending December 31, 2004	1,451
2005	1,323
2006	846
2007	537
Thereafter	9,133
Total debt service and capital lease payments	14,375
Less portion representing interest	(6,022)
Total principal balance at June 30, 2003	$ 8,353
Categories in which the principal balances are presented as of June 30, 2003:	
Current portion of obligations under capital leases and notes payable	$ 1,331
Capital lease obligations, net of current portion	85
Notes payable, net of current portion	6,937
Total principal balance at June 30, 2003	$ 8,353

We have a fixed rent obligation under a ground lease for the land on which we built our facilities. Since this is an operating lease, there is no liability reflected on our balance sheet for this item, which is in accordance with generally accepted accounting principles. We make total annual rent payments of approximately $144,000 under this lease that will continue until the expiration of the initial term of this lease in September 2026. Future annual rental payments due under all operating leases are as follows, in thousands:

Six months ending December 31, 2003	$ 213
Year ending December 31, 2004	281
2005	202
2006	144
2007	144
Thereafter	2,707
Total minimum lease payments under operating leases	$ 3,691

In the normal course of business, we enter into various long-term agreements with vendors to provide services to us. Some of these agreements require up-front payment prior to services being rendered, some require periodic monthly payments and some provide for the vendor to bill us for their services as they are rendered. In substantially all cases, we may cancel these agreements at any time with minimal or no penalty and pay the vendor only for services actually rendered. Regardless of the timing of the payments under these agreements, we record the expenses incurred in the periods in which the services are rendered.

We pay consulting fees of approximately $175,000 per annum to EJ Financial Enterprises, Inc., a company owned by the Chairman of our Board of Directors and that formerly employed one of our directors. EJ Financial Enterprises, Inc. provides us guidance on strategic product

development, business development and marketing activities. We are obligated to continue paying this fee until we terminate the services of that company at our option.

We have a consulting agreement with Jack A. Roth, M.D., Chairman of the Department of Thoracic Surgery and Director of the Keck Center for Gene Therapy at The University of Texas M. D. Anderson Cancer Center. Dr. Roth was the primary inventor of the

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technology upon which our ADVEXIN therapy is based and numerous other technologies we utilize. We licensed Dr. Roth s inventions from M. D. Anderson Cancer Center. Dr. Roth is our Chief Medical Advisor and chairman of our scientific advisory board. His duties involve the regular interaction and consultation with our scientists and others on our behalf. As compensation for his services and responsibilities, this consulting agreement provides for payments to Dr. Roth of $182,000 per annum through September 30, 2003, and $200,000 per annum thereafter through the end of its term on September 30, 2009, with such future payments subject to adjustment for inflation. We may terminate this agreement at our option upon one year s advance notice. If we had terminated this agreement as of June 30, 2003, we would have been obligated to make final payments totaling $196,000. Dr. Roth is one of our stockholders.

Factors Affecting Future Operating Results

We may encounter delays or difficulties in clinical trials for our product candidates, which may delay or preclude regulatory approval of some or all of our product candidates.

In order to commercialize our product candidates, we must obtain regulatory approvals. Satisfaction of regulatory requirements typically takes many years, and involves compliance with requirements covering research and development, testing, manufacturing, quality control, labeling and promotion of drugs for human use. To obtain regulatory approvals, we must, among other requirements, complete clinical trials demonstrating that our product candidates are safe and effective for a particular cancer type or other disease.

We are conducting Phase 3 clinical trials of our lead product candidate, ADVEXIN® therapy, for the treatment of head and neck cancer, have completed a Phase 2 clinical trial of ADVEXIN therapy for the treatment of non-small cell lung cancer, are conducting a Phase 2 clinical trial of ADVEXIN therapy for the treatment of breast cancer and either have conducted or are conducting several Phase 1 and Phase 2 clinical trials of ADVEXIN therapy for other cancer types. Current or future clinical trials may demonstrate that ADVEXIN therapy is neither safe nor effective.

While we are conducting a Phase 1-2 clinical trial of INGN 241, a product candidate based on the mda-7 gene, our most significant clinical trial activity and experience has been with ADVEXIN therapy. We will need to continue conducting significant research and animal testing, referred to as pre-clinical testing, to support performing clinical trials for our other product candidates. It will take us many years to complete pre-clinical testing and clinical trials, and failure could occur at any stage of testing. Current or future clinical trials may demonstrate that INGN 241 or our other product candidates are neither safe nor effective.

Any delays or difficulties we encounter in our pre-clinical research and clinical trials, in particular the Phase 3 clinical trials of ADVEXIN therapy for the treatment of head and neck cancer, may delay or preclude regulatory approval. Our product development costs will increase if we experience delays in testing or regulatory approvals or if we need to perform more or larger clinical trials than planned. Any delay or preclusion could also delay or preclude the commercialization of ADVEXIN therapy or any other product candidates. In addition, we or the FDA might delay or halt any of our clinical trials of a product candidate at any time for various reasons, including:

the failure of the product candidate to be more effective than current therapies;

the presence of unforeseen adverse side effects of a product candidate, including its delivery system;

a longer than expected time required to determine whether or not a product candidate is effective;

the death of patients during a clinical trial, even though the product candidate may not have caused those deaths;

the failure to enroll a sufficient number of patients in our clinical trials;

the inability to produce sufficient quantities of a product candidate to complete the trials; or

the inability to commit the necessary resources to fund the clinical trials.

We may encounter delays or rejections in the regulatory approval process because of additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. Failure to comply with applicable FDA or other applicable regulatory requirements may result in criminal

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prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other regulatory action against our product candidates or us.

Outside the United States, our ability to market a product is contingent upon receiving clearances from the appropriate regulatory authorities. This foreign regulatory approval process includes all of the risks associated with FDA clearance described above.

We have a history of operating losses and expect to incur significant additional operating losses.

We have generated operating losses since we began operations in June 1993. As of June 30, 2003, we had an accumulated deficit of approximately $83.1 million. We expect to incur substantial additional operating expenses and losses over the next several years as our research, development, pre-clinical testing and clinical trial activities increase. We have no products that have generated any commercial revenue. Presently, we earn minimal revenue from contract services activities, grants, interest income and rent from the lease of a portion of our facilities to M. D. Anderson Cancer Center. Prior to December 31, 2000, we earned revenue from Aventis under collaborative agreements for research and development and sales of ADVEXIN therapy for use in Aventis clinical trials, which are revenues we no longer receive. We do not expect to generate revenues from the commercial sale of products in the foreseeable future, and we may never generate revenues from the commercial sale of products.

If we continue to incur operating losses for a period longer than we anticipate and fail to obtain the capital necessary to fund our operations, we will be unable to advance our development program and complete our clinical trials.

Developing a new drug and conducting clinical trials for multiple disease indications is expensive. We expect that we will fund our operations over the approximately the next 18 to 24 months with our current working capital, resulting primarily from the net proceeds from our initial public offering in October 2000, the sale of Series A Non-Voting Convertible Preferred Stock to Aventis in June 2001, net proceeds from the sale of common stock and warrants to purchase common stock in a private placement to selected institutional investors in June 2003, income from contract services and research grants, debt financing of equipment acquisitions, the lease of a portion of our facilities to M. D. Anderson Cancer Center and interest on invested funds. We may need to raise additional capital sooner, however, due to a number of factors, including:

an acceleration of the number, size or complexity of our clinical trials;

slower than expected progress in developing ADVEXIN therapy, INGN 241 or other product candidates;

higher than expected costs to obtain regulatory approvals;

higher than expected costs to pursue our intellectual property strategy;

higher than expected costs to further develop our manufacturing capability;

higher than expected costs to develop our sales and marketing capability; and

slower than expected progress in reducing our operating costs.

We do not know whether additional financing will be available when needed, or on terms favorable to us or our stockholders. We may need to raise any necessary funds through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements. To the extent we raise additional capital by issuing equity securities, our stockholders will experience dilution. If we raise funds through debt financings, we may become subject to restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to relinquish some rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us.

If we cannot maintain our corporate and academic arrangements and enter into new arrangements, product development could be delayed.

Our strategy for the research, development and commercialization of our product candidates may require us to enter into contractual arrangements with corporate collaborators, academic institutions and others. We have entered into sponsored research and/or collaborative arrangements with several entities, including M. D. Anderson Cancer Center, the National Cancer Institute, Chiba

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University in Japan, VirRx and Corixa Corporation, as well as numerous other institutions who conduct clinical trials work for us..Our success depends upon our collaborative partners performing their responsibilities under these arrangements. We cannot control the amount and timing of resources our collaborative partners devote to our research and testing programs or product candidates, which can vary because of factors unrelated to such programs or product candidates. These relationships may in some cases be terminated at the discretion of our collaborative partners with only limited notice to us. We may not be able to maintain our existing arrangements, enter into new arrangements or negotiate current or new arrangements on acceptable terms, if at all. Some of our collaborative partners may also be researching competing technologies independently from us to treat the diseases targeted by our collaborative programs.

If we are not able to create effective collaborative marketing relationships, we may be unable to market ADVEXIN therapy successfully or in a cost-effective manner.

To effectively market our products, we will need to develop sales, marketing and distribution capabilities. In order to develop or otherwise obtain these capabilities, we may have to enter into marketing, distribution or other similar arrangements with third parties in order to successfully sell, market and distribute our products. To the extent that we enter into any such arrangements with third parties, our product revenues are likely to be lower than if we directly marketed and sold our products, and any revenues we receive will depend upon the efforts of such third parties. We have no experience in marketing or selling pharmaceutical products and we currently have no sales, marketing or distribution capability. We may be unable to develop sufficient sales, marketing and distribution capabilities to successfully commercialize our products.

Serious unwanted side effects attributable to gene therapy may result in governmental authorities imposing additional regulatory requirements or a negative public perception of our products.

Serious unwanted side effects attributable to treatment, which physicians classify as treatment-related adverse events, occurring in the field of gene therapy may result in greater governmental regulation and negative public perception of our product candidates, as well as potential regulatory delays relating to the testing or approval of our product candidates. The FDA recently placed a clinical hold on gene therapy clinical trials using retroviral vectors to transduce hematopoietic stem cells after two participants in such a trial for the X-linked form of severe combined immune deficiency disease (X-SCID) being conducted in Europe developed what appeared to be a leukemia-like illness. This clinical hold requires a case-by-case review of the use of retroviral vectors in these European trials. We do not use retroviral vectors in our ongoing clinical trials and are not developing products using the production process used in those clinical trials. We have received no communications from the FDA to indicate this clinical hold will affect our clinical trials, and we anticipate no future negative effects on our clinical trials from this event. In accordance with our pharmacovigilance procedures, we monitor every patient in our clinical trials for safety and report all side effects to the FDA and the National Institutes of Health according to applicable regulations. We have witnessed no adverse effects in our clinical trials that even remotely resemble what occurred in the X-SCID trial. Due to the fundamental differences between retroviral vectors and the adenoviral vector employed in ADVEXIN therapy, we believe the likelihood of our encountering an event such as that experienced in the X-SCID trial is remote.

The United States Senate has held hearings concerning the adequacy of regulatory oversight of gene therapy clinical trials, as well as the adequacy of research subject education and protection in clinical research in general, and to determine whether additional legislation is required to protect healthy volunteers and patients who participate in such clinical trials. The Recombinant DNA Advisory Committee, or RAC, which acts as an advisory body to the National Institutes of Health, or NIH, has expanded its public role in evaluating important public and ethical issues in gene therapy clinical trials. Implementation of any additional review and reporting procedures or other additional regulatory measures could increase the costs of or prolong our product development efforts or clinical trials.

Following routine procedure, we report to the FDA and other regulatory agencies serious adverse events that we believe may be reasonably related to the treatments administered in our clinical trials. Such serious adverse events, whether treatment-related or not, could result in negative public perception of our treatments and require additional regulatory review or measures, which could increase the cost of or prolong our clinical trials.

To date no governmental authority has approved any gene therapy product or gene-induced product for sale in the United States or internationally. The commercial success of our products will depend in part on public acceptance of the use of gene therapy products or gene-induced products, which are a new type of disease treatment for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that gene therapy products or gene-induced products are unsafe, and these treatment methodologies may not gain the acceptance of the public or the medical community. Negative public reaction to gene therapy product or gene-induced products could also result in greater government regulation and stricter clinical trial oversight.

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If we fail to adequately protect our intellectual property rights, our competitors may be able to take advantage of our research and development efforts to develop competing drugs.

Our commercial success will depend in part on obtaining patent protection for our products and other technologies and successfully defending these patents against third party challenges. Our patent position, like that of other biotechnology and pharmaceutical companies, is highly uncertain. One uncertainty is that the United States Patent and Trademark Office, or PTO, or the courts, may deny or significantly narrow claims made under patents or patent applications. This is particularly true for patent applications or patents that concern biotechnology and pharmaceutical technologies, such as ours, since the PTO and the courts often consider these technologies to involve unpredictable sciences. Another uncertainty is that any patents that may be issued or licensed to us may not provide any competitive advantage to us and they may be successfully challenged, invalidated or circumvented in the future. In addition, our competitors, many of which have substantial resources and have made significant investments in competing technologies, may seek to apply for and obtain patents that will prevent, limit or interfere with our ability to make, use and sell our potential products either in the United States or in international markets.

Our ability to develop and protect a competitive position based on our biotechnological innovations, innovations involving genes, gene-induced therapeutic protein agents, viruses for delivering the genes to cells, formulations, gene therapy delivery systems that do not involve viruses, and the like, is particularly uncertain. Due to the unpredictability of the biotechnological sciences, the PTO, as well as patent offices in other jurisdictions, has often required that patent applications concerning biotechnology-related inventions be limited or narrowed substantially to cover only the specific innovations exemplified in the patent application, thereby limiting their scope of protection against competitive challenges. Similarly, courts have invalidated or significantly narrowed many key patents in the biotechnology industry. Thus, even if we are able to obtain patents that cover commercially significant innovations, our patents may not be upheld or our patents may be substantially narrowed.

Through our exclusive license from The University of Texas System for technology developed at M. D. Anderson Cancer Center, we have obtained and are currently seeking further patent protection for adenoviral p53, including ADVEXIN therapy, and its use in cancer therapy. Further, the PTO issued us a United States patent for our adenovirus production technology. We also control, through licensing arrangements, four issued United States patents for combination therapy involving the p53 gene and conventional chemotherapy or radiation, one issued United States patent covering the use of adenoviral p53 in cancer therapy, one issued United States patent covering adenoviral p53 as a product and an issued United States patent covering the core DNA of adenoviral p53. Our competitors may challenge the validity of one or more of our patents in the courts or through an administrative procedure known as an interference. The courts or the PTO may not uphold the validity of our patents, we may not prevail in such interference proceedings regarding our patents and none of our patents may give us a competitive advantage.

We have been notified by the European Patent Office, or EPO, that Schering-Plough has filed an opposition against our European patent directed to combination therapy with p53 and conventional chemotherapy and/or radiation. An opposition is an administrative proceeding instituted by a third party and conducted by the EPO to determine whether a patent should be maintained or revoked in part or in whole, based on evidence brought forth by the party opposing the patent. The EPO will hold an initial oral proceeding in October 2003 to determine whether the patent should be maintained. Resolution of this opposition will require that we expend time, effort and money. If the party opposing the patent ultimately prevails in having our European patent revoked in whole or in part then the scope of our protection for our product in Europe will be reduced. We would not expect, however, such a result to have a significant impact on our commercialization efforts in Europe.

Third-party claims of infringement of intellectual property could require us to spend time and money to address the claims and could limit our intellectual property rights.

The biotechnology and pharmaceutical industry has been characterized by extensive litigation regarding patents and other intellectual property rights, and companies have employed intellectual property litigation to gain a competitive advantage. We are aware of a number of issued patents and patent applications that relate to gene therapy, the treatment of cancer and the use of the p53 and other tumor suppressor genes. Schering-Plough Corporation, including its subsidiary Canji, Inc., controls various United States patent applications and a European patent and applications, some of which are directed to therapy using the p53 gene, and others to adenoviruses that contain the p53 gene, or adenoviral p53, and to methods for carrying out therapy using adenoviral p53. In addition, Canji controls an issued United States patent and its international counterparts, including a European patent, involving a method of treating mammalian cancer cells lacking normal p53 protein by introducing a p53 gene into the cancer cell.

While we believe that our potential products do not infringe any valid claim of the Canji p53 patents, Canji or Schering-Plough could assert a claim against us. We may also become subject to infringement claims or litigation arising out of other patents and

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pending applications of our competitors, if they issue, or additional interference proceedings declared by the PTO to determine the priority of inventions. The defense and prosecution of intellectual property suits, PTO interference proceedings and related legal and administrative proceedings are costly and time-consuming to pursue, and their outcome is uncertain. Litigation may be necessary to enforce our issued patents, to protect our trade secrets and know-how or to determine the enforceability, scope and validity of the proprietary rights of others. An adverse determination in litigation or interference proceedings to which we may become a party could subject us to significant liabilities, require us to obtain licenses from third parties, or restrict or prevent us from selling our products in certain markets. Although patent and intellectual property disputes are often settled through licensing or similar arrangements, costs associated with such arrangements may be substantial and could include ongoing royalties. Furthermore, the necessary licenses may not be available to us on satisfactory terms, if at all. In particular, if we were found to infringe a valid claim of the Canji p53 issued United States patent, our business could be materially harmed.

We are currently involved in opposing three European patents in proceedings before the EPO, in which we are seeking to have the EPO revoke three different European patents owned or controlled by Canji. These European patents relate to the use of a p53 gene, or the use of tumor suppressor genes, in the preparation of therapeutic products. In one opposition involving a European patent directed to the use of a tumor suppressor gene, the EPO revoked the European patent in its entirety. Canji has appealed this revocation. In the second opposition, involving a patent that is directed to therapeutic and other applications of the p53 gene and that is owned by Johns Hopkins and, we understand, controlled by Schering-Plough, the EPO recently revoked the patent in its entirety. The patent owner will have an opportunity to appeal this decision. In a third case involving the use of a p53 gene, the European patent at issue was upheld following an initial hearing. A second hearing to determine whether this patent should be revoked will be upcoming. If we do not ultimately prevail in one or more of these oppositions, our competitors could seek to assert by means of litigation any patent surviving opposition against European commercial activities involving our potential products. If our competitors are successful in any such litigation, it could have a significant detrimental effect on our ability to commercialize our potential commercial products in Europe.

Competition and technological change may make our product candidates and technologies less attractive or obsolete.

We compete with pharmaceutical and biotechnology companies, including Canji, Inc. and Genvec, Inc., which are pursuing other forms of treatment for the diseases ADVEXIN therapy and our other product candidates target. We also may face competition from companies that may develop internally or acquire competing technology from universities and other research institutions. As these companies develop their technologies, they may develop competitive positions that may prevent or limit our product commercialization efforts.

Some of our competitors are established companies with greater financial and other resources than ours. Other companies may succeed in developing products earlier than we do, obtaining FDA approval for products more rapidly than we do or developing products that are more effective than our product candidates. While we will seek to expand our technological capabilities to remain competitive, research and development by others may render our technology or product candidates obsolete or non-competitive or result in treatments or cures superior to any therapy developed by us.

Even if we receive regulatory approval to market ADVEXIN therapy, INGN 241, INGN 225 or other product candidates, we may not be able to commercialize them profitably.

Our profitability will depend on the market s acceptance of ADVEXIN therapy, INGN 241, INGN 225 and our other product candidates. The commercial success of our product candidates will depend on whether:

they are more effective than alternative treatments;

their side effects are acceptable to patients and doctors;

we produce and sell them at a profit; and

we market ADVEXIN therapy, INGN 241, INGN 225 and other product candidates effectively.

If we are unable to manufacture our products in sufficient quantities or obtain regulatory approvals for our manufacturing facility, or if our manufacturing process is found to infringe a valid patented process of another company, then we may be unable to meet demand for our products and lose potential revenues.

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The completion of our clinical trials and commercialization of our product candidates requires access to, or development of, facilities to manufacture a sufficient supply of our product candidates. We use a manufacturing facility in Houston, Texas, which we constructed and own, to manufacture ADVEXIN therapy, INGN 241 and other product candidates for currently planned clinical trials. This facility will be used for the initial commercial launch of ADVEXIN therapy. We have no experience manufacturing ADVEXIN therapy, INGN 241 or any other product candidates in the volumes that would be necessary to support commercial sales. If we are unable to manufacture our product candidates in clinical or, when necessary, commercial quantities, then we will need to rely on third-party manufacturers to produce our products for clinical and commercial purposes. These third-party manufacturers must receive FDA approval before they can produce clinical material or commercial product. Our products may be in competition with other products for access to these facilities and may be subject to delays in manufacture if third parties give other products greater priority than ours. In addition, we may not be able to enter into any necessary third-party manufacturing arrangements on acceptable terms. There are very few contract manufacturers who currently have the capability to produce ADVEXIN therapy, INGN 241 or our other product candidates, and the inability of any of these contract manufacturers to deliver our required quantities of product candidates timely and at commercially reasonable prices would negatively affect our operations.

Before we can begin commercially manufacturing ADVEXIN therapy, INGN 241 or any other product candidate, we must obtain regulatory approval of our manufacturing facility and process. Manufacturing of our product candidates for clinical and commercial purposes must comply with CGMP and foreign regulatory requirements. The CGMP requirements govern quality control and documentation policies and procedures. In complying with CGMP and foreign regulatory requirements, we will be obligated to expend time, money and effort in production, record keeping and quality control to assure that the product meets applicable specifications and other requirements. We must also pass a pre-approval inspection prior to FDA approval.

Our current manufacturing facilities have not yet been subject to an FDA or other regulatory inspection. Failure to pass a pre-approval inspection may significantly delay FDA approval of our products. If we fail to comply with these requirements, we would be subject to possible regulatory action and may be limited in the jurisdictions in which we are permitted to sell our products. Further, the FDA and foreign regulatory authorities have the authority to perform unannounced periodic inspections of our manufacturing facility to ensure compliance with CGMP and foreign regulatory requirements. Our facility in Houston, Texas is our only manufacturing facility. If this facility were to incur significant damage or destruction, then our ability to manufacture ADVEXIN therapy or any other product candidates would be significantly hampered and we would incur delays in our pre-clinical testing, clinical trials and commercialization efforts.

Canji controls a United States patent and corresponding international applications, including a European counterpart, relating to the purification of viral or adenoviral compositions. While we believe that our manufacturing process does not infringe upon this patent, Canji could still assert a claim against us. We may also become subject to infringement claims or litigation if our manufacturing process infringes upon other patents. The defense and prosecution of intellectual property suits and related legal and administrative proceedings are costly and time-consuming to pursue, and their outcome is uncertain.

We rely on only one supplier for some of our manufacturing materials. Any problems experienced by any such supplier could negatively affect our operations.

We rely on third-party suppliers for some of the materials used in the manufacturing of ADVEXIN therapy, INGN 241 and our other product candidates. Some of these materials are available from only one supplier or vendor. Any significant problem that one of our sole source suppliers experiences could result in a delay or interruption in the supply of materials to us until that supplier cures the problem or until we locate an alternative source of supply. Any delay or interruption would likely lead to a delay or interruption in our manufacturing operations, which could negatively affect our operations.

The CellCube™ Module 100 bioreactor, which Corning (Acton, MA) manufactures, and Benzonase®, which EM Industries (Hawthorne, NY) manufactures, are currently available only from these suppliers. Any significant interruption in the supply of either of these items would require a material change in our manufacturing process. We maintain inventories of these items, but we do not have a supply agreement with either manufacturer.

If product liability lawsuits are successfully brought against us, we may incur substantial damages and demand for the products may be reduced.

The testing and marketing of medical products is subject to an inherent risk of product liability claims. Regardless of their merit or eventual outcome, product liability claims may result in:

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decreased demand for our product candidates;

injury to our reputation and significant media attention;

withdrawal of clinical trial volunteers;

substantial delay in FDA approval;

costs of litigation; and

substantial monetary awards to plaintiffs.

We currently maintain product liability insurance with coverage of $5.0 million per occurrence with a $15.0 million annual aggregate limit. This coverage may not be sufficient to protect us fully against product liability claims. We intend to expand our product liability insurance coverage to include the sale of commercial products if we obtain marketing approval for any of our product candidates. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against product liability claims could prevent or limit the commercialization of our products.

We use hazardous materials in our business, and any claims relating to improper handling, storage or disposal of these materials could harm our business.

Our business involves the use of a broad range of hazardous chemicals and materials. Environmental laws impose stringent civil and criminal penalties for improper handling, disposal and storage of these materials. In addition, in the event of an improper or unauthorized release of, or exposure of individuals to, hazardous materials, we could be subject to civil damages due to personal injury or property damage caused by the release or exposure. A failure to comply with environmental laws could result in fines and the revocation of environmental permits, which could prevent us from conducting our business.

Our stock price may fluctuate substantially.

The market price for our common stock will be affected by a number of factors, including:

the announcement of new products or services by us or our competitors;

quarterly variations in our or our competitors results of operations;

failure to achieve operating results projected by securities analysts;

changes in earnings estimates or recommendations by securities analysts;

developments in our industry; and

general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to the operating performance of such companies. Many factors may have a significant adverse effect on the market price of our common stock, including:

results of our pre-clinical and clinical trials;

announcement of technological innovations or new commercial products by us or our competitors;

developments concerning proprietary rights, including patent and litigation matters;

publicity regarding actual or potential results with respect to products under development by us or by our competitors;

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regulatory developments; and

quarterly fluctuations in our revenues and other financial results.

Any acquisition we might make may be costly and difficult to integrate, may divert management resources or dilute stockholder value.

As part of our business strategy, we may acquire assets or businesses principally relating to or complementary to our current operations, and we have in the past evaluated and discussed such opportunities with interested parties. Any acquisitions that we undertake will be accompanied by the risks commonly encountered in business acquisitions. These risks include, among other things:

potential exposure to unknown liabilities of acquired companies;

the difficulty and expense of assimilating the operations and personnel of acquired businesses;

diversion of management time and attention and other resources;

loss of key employees and customers as a result of changes in management;

the incurrence of amortization expenses; and

possible dilution to our stockholders.

In addition, geographic distances may make the integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk for changes in interest rates relates primarily to our fixed rate long-term debt and short-term investments in investment grade securities, which consist primarily of federal and state government obligations, commercial paper and corporate bonds. Investments are classified as held-to-maturity and are carried at amortized costs. We do not hedge interest rate exposure or invest in derivative securities. A hypothetical 100-basis point decrease in the interest rates of our investments at the investment balances as of June 30, 2003 would decrease our interest income by approximately $250,000 per year and approximately $63,000 per quarter.

At June 30, 2003, the fair value of our fixed-rate debt approximated its carrying value based upon discounted future cash flows using current market prices.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved from time to time in legal proceedings relating to claims arising out of our operations in the ordinary course of business, including actions relating to our intellectual property rights.

We do not believe that the outcome of any present, or all litigation in the aggregate, other than our opposition of three European patents controlled by Canji discussed under Factors Affecting Future Operating Results, will have a material effect on our business. You can read the discussion of our opposition of these patents under Factors Affecting Future Operating Results.

Item 2. Changes in Securities and Use of Proceeds.

In June 2003, we sold 2.0 million shares of our common stock for an aggregate purchase price of $11.5 million to selected institutional investors through a private placement pursuant to Regulation D promulgated under the Securities Act of 1933, as amended. Our net proceeds from this transaction, after related fees and expenses, were $10.8 million. The shares of common stock issued and issuable upon the exercise of warrants issued in this transaction have been registered on a Registration Statement on Form S-3, effective August 7, 2003 (Commission File No. 333-107028). The proceeds from the offering will be used for research and development, including clinical trials, the advancement of our process development and manufacturing capabilities, the initiation of product marketing and commercialization programs, and for general corporate purposes, including working capital.

Pursuant to a stock purchase agreement with Aventis executed on June 30, 2001, we issued 100,000 shares of Series A Non-Voting Convertible Preferred Stock to Aventis in exchange for $25.0 million, the payment for which was received on July 2, 2001. We relied on Rule 506 promulgated under Section 4(2) of the Securities Act of 1933, as amended, as the exemption from registration, as the sale was to a single accredited investor. Under the terms of the Certificate of Designations filed in connection with the sale, the Series A Non-Voting Convertible Preferred Stock is convertible into 2,343,721 shares of our common stock at any time upon either party s election. We expect to use the proceeds from this sale for research and development, including clinical trials, the advancement of our process development and manufacturing capabilities, the initiation of product marketing and commercialization programs, and for general corporate purposes, including working capital.

We closed our initial public offering of common stock on October 17, 2000, pursuant to a Registration Statement on Form S-1, which was declared effective by the Securities and Exchange Commission on October 11, 2000 (Commission File No. 333-30582). This sale of the shares of common stock generated aggregate net proceeds of approximately $32.2 million, all of which had been used as of December 31, 2002 for operating, investing and financing activities. Other than the payment of salary to our officers and the reimbursement of certain out-of-pocket expenses of our directors, we have not made any payments out of these proceeds to our directors or officers, or any person owning ten percent or more of our equity securities.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) We held our Annual Meeting of Stockholders (Annual Meeting) on June 26, 2003.

(b) At the Annual Meeting, our stockholders elected John N. Kapoor, Ph.D. and David G. Nance as Class III directors to serve for terms of three years. In addition, the term of office continued after the meeting for the following directors: William H. Cunningham, Ph.D. and Robert L. Moore as Class I directors and Charles E. Long and Mahendra G. Shah, Ph. D. as Class II directors.

(c) Our stockholders voted on the following matters at the Annual Meeting:

1. the election of two (2) Class III directors to our board of directors, each to serve a term of three (3) years; and

2. the ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2003.

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(d) Votes were cast for the election of John N. Kapoor, Ph. D. and David G. Nance as Class III directors as follows:

Director:	Votes For:	Votes Withheld:
John N. Kapoor, Ph. D	19,339,074	4,000
David G. Nance	18,610,510	732,564

(e) The ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2003 was approved as follows:

19,337,674 votes for approval;
3,400 votes against; and
2,000 abstentions.

Item 5. Other Information.

Pursuant to Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for disclosing the approval of non-audit services approved by the audit committee of our Board of Directors (the Audit Committee) to be performed by Ernst & Young LLP, our independent auditors. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements. Except as set forth below, the services approved by the Audit Committee are each considered by the Audit Committee to be audit-related services that are closely related to the financial audit process. Each of the services was pre-approved by the Audit Committee.

The Audit Committee has also pre-approved additional engagements of Ernst & Young LLP for the non-audit services of preparation of state and federal tax returns.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 17 C.F.R. 240.13a-14 or 17 C.FR. 240.15d-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

In connection with our earnings press release for the quarter ended March 31, 2003, we filed a Current Report on Form 8-K and an Amendment No.1 to Current Report on Form 8-K on May 13, 2003.

In connection with the press release announcing the sale of 2.0 million shares of our common stock to selected institutional investors on June 18, 2003, we filed a Current Report on Form 8-K on June 18, 2003.

In connection with the sale of 2.0 million shares of our common stock to selected institutional investors on June 18, 2003, we filed a Current Report on Form 8-K on June 19, 2003.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

INTROGEN THERAPEUTICS, INC.

Date: August 14, 2003

By: /s/ James W. Albrecht, Jr.

James W. Albrecht, Jr.
On behalf of the Registrant and as Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 17 C.F.R. 240.13a-14 or 17 C.F.R. 240.15d-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

FAMILY: times new roman; FONT-SIZE: 10pt; FONT-WEIGHT: bold">High

Low

Second Quarter

$2.89

$1.75

Third Quarter

$2.74

$1.80

Fourth Quarter

$2.59

$1.60

Fiscal Year 2012

High

Low

First Quarter

$2.15

$1.10

Second Quarter (through May 30, 2012)

$1.85

$0.60

The last reported sales price of our common stock on the OTC Bulletin Board on May 30, 2012, was $0.75 per share. As of May 30, 2012, there were approximately 230 holders of record of our common stock.

Dividend Policy

In the past, we have not declared or paid cash dividends on our common stock, and we do not intend to pay any cash dividends on our common stock. Rather, we intend to retain future earnings, if any, to fund the operation and expansion of our business and for general corporate purposes.

Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Registration Statement on Form S-1. The balance sheet data at December 31, 2011, 2010 and 2009 and the statement of operations data for each of the two years ended December 31, 2011, 2010 and 2009 have been derived from the audited Consolidated Financial Statements for such years, included elsewhere in this Registration Statement on Form S-1. The balance sheet data at December 31, 2008, 2007 and 2006, and the statement of operations data for each of the three years ended December 31, 2008, 2007 and 2006 have been derived from our books and records.

	Statement of Operations Data				
	2011	2010	2009	2008	2007
Revenues	6,004	4,949	3,411-	-	
Cost of Revenues	3,011	2,696	2,291	404	328
Gross Profit (Loss)	2,993	2,253	1,120	(404)	(328)
Gross Margin	50%	46%	33%	0	0
Total Operating Expenses	16,722	5,472	3,837	5,627	5,903
Net Loss	(14,665)	(3,420)	(2,724)	(6,495)	(6,138)
Basic and Diluted loss per common share	(0.24)	(0.07)	(0.06)	(0.14)	(0.14)
Basic and Diluted common shares outstanding	61,439,700	49,234,528	47,658,853	46,364,731	42,647,151

	Balance Sheet Data				
	2011	2010	2009	2008	2007
Cash, Cash equivalents and short term deposits	5,094	636	376	1,571	2,717
Restricted Cash	91	250	302	30	34
Working Capital	6,389	(53)	(1,289)	589	2,625
Total Assets	10,465	4,355	4,509	4,448	3,923
Shareholder's Equity	6,754	(914)	(1,339)	134	2,949

Selected Quarterly Financial Data

The following selected quarterly consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Registration Statement on Form S-1. The following table sets forth selected financial information for the dates and periods indicated. Our results for any of these periods are not necessarily indicative of the results to be expected for the year ending December 31, 2012 or for any other future period. Dollar amounts are in thousands, except per share amounts.

	First Quarter Ended March 31, 2012	
Revenues	$1,138	
Cost of Revenues	$574	
Gross Profit (Loss)	$564	
Gross Margin	50	%
Total Operating Expenses	$3,690	
Net Loss	$(3,140	)
Basic and Diluted loss per common share	$(0.05	)
Basic and Diluted common shares outstanding	68,178,946	

	Fiscal Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 1,686	$ 1,040	$ 1,986	$ 1,292
Cost of Revenues	$ 899	$ 640	$ 801	$ 671
Gross Profit (Loss)	$ 787	$ 400	$ 1,185	$ 621
Gross Margin	47%	38%	60%	48%
Total Operating Expenses	$ 1,957	$ 2,572	$ 3,335	$ 8,858
Net Loss	$ (1,895)	$ (2,254)	$ (2,283)	$ (8,233)
Basic and Diluted loss per common share	$ (0.037)	$ (0.04)	$ (0.04)	$ (0.12)
Basic and Diluted common shares outstanding	50,798,900	63,934,260	64,300,685	66,697,424

	Fiscal Year Ended December 31, 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter

Revenues	$	2,097	$ 908	$ 1,223	$ 721
Cost of Revenues	$	1,337	$ 479	$ 561	$ 319
Gross Profit (Loss)	$	760	$ 429	$ 662	$ 402
Gross Margin		36%	47%	54%	56%
Total Operating Expenses	$	1,404	$ 1,118	$ 1,379	$ 1,571
Net Loss	$	(729)	$ (663)	$ (847)	$ (1,181)
Basic and Diluted loss per common share	$	(0.015)	$ (0.01)	$ (0.02)	$ (0.02)
Basic and Diluted common shares outstanding		48,595,241	49,113,463	49,490,460	49,680,214

Management's Discussion And Analysis Of
Financial Condition And Results Of Operation

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this registration statement on Form S-1.

Overview

We are a medical device company focusing on the development and commercialization of our proprietary stent platform technology, MGuard™. MGuard™ provides embolic protection in stenting procedures by placing a micron mesh sleeve over a stent. Our initial products are marketed for use mainly in patients with acute coronary syndromes, notably acute myocardial infarction (heart attack) and saphenous vein graft coronary interventions (bypass surgery).

On March 31, 2011, we completed a series of share exchange transactions pursuant to which we acquired all of the capital stock of InspireMD Ltd., a company formed under the laws of the State of Israel, in exchange for an aggregate of 50,666,663 shares of our common stock. As a result of these share exchange transactions, InspireMD Ltd. became our wholly-owned subsidiary, we discontinued our former business and succeeded to the business of InspireMD Ltd. as our sole line of business.

The share exchange transactions are being accounted for as a recapitalization. InspireMD Ltd. is the acquirer for accounting purposes and we are the acquired company. Accordingly, the historical financial statements presented and the discussion of financial condition and results of operations herein are those of InspireMD Ltd., retroactively restated for, and giving effect to, the number of shares received in the share exchange transactions, and do not include the historical financial results of our former business. The accumulated earnings of InspireMD Ltd. were also carried forward after the share exchange transactions and earnings per share have been retroactively restated to give effect to the recapitalization for all periods presented. Operations reported for periods prior to the share exchange transactions are those of InspireMD Ltd.

Recent Events

On April 5, 2012, we issued senior secured convertible debentures due April 5, 2014 in the original aggregate principal amount of $11,702,128 and five-year warrants to purchase an aggregate of 3,343,465 shares of our common stock at an exercise price of $1.80 per share in exchange for aggregate gross proceeds of $11,000,000. The convertible debentures were issued with a 6% original issuance discount, bear interest at an annual rate of 8% and are convertible at any time into shares of common stock at an initial conversion price of $1.75 per share. In converting the convertible debentures, investors shall receive a conversion premium equal to 8%, per annum, of the principal amount being converted, subject to a maximum premium of 12% for the term of the debentures. In addition, the investors may require us to redeem the convertible debentures after 18 months for 112% of the then outstanding principal amount, plus all accrued interest, and we may prepay the convertible debentures after six months for 112% of the then outstanding principal amount, plus all accrued interest. In connection with this financing, we paid placement agent fees of $848,750 and issued placement agents warrants to purchase 312,310 shares of common stock, with terms identical to the warrants issued to the investors.

On October 31, 2011, our stockholders authorized our board of directors to amend our amended and restated certificate of incorporation to effect a reverse stock split of our common stock at a ratio of one-for-two to one-for-four, at any time prior to our 2012 annual stockholders' meeting, the exact ratio of the reverse stock split to be determined by the board. As of the date of this prospectus, we have not effected the reverse stock split and, as such, the information with respect to our common stock in this prospectus and the accompanying financial statements and related notes does not give effect to any reverse stock split. In addition, pursuant to the securities purchase agreement under which the convertible debentures that we issued on April 5, 2012 were sold, until April 5, 2013, we are not premitted to effectuate any reverse stock splits without the prior written consent of the holders of at least 60% of the outstanding principal amount of the convertible debentures other than for purposes of qualifying for initial listing on a national securities exchange or meeting the continued listing requirements of such exchange.

On October 4, 2011, InspireMD Ltd., our wholly-owned subsidiary, entered into a clinical trial services agreement with Harvard Clinical Research Institute, Inc., pursuant to which Harvard Clinical Research Institute, Inc. will conduct a study entitled "MGuard Stent System Clinical Trial in Patients with Acute Myocardial Infarction" on our behalf. We will pay Harvard Clinical Research Institute, Inc. an estimated fee of approximately $12 million for conducting the study, subject to adjustment dependent upon changes in the scope and nature of the study, as well as other costs to be determined by the parties.

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Critical Accounting Policies

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, 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 revenue recognition including provision for returns, legal contingencies and estimation of the fair value of share-based compensation and convertible debt.

Functional currency

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

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, we use various valuation approaches, including market, income and/or cost approaches. Hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs.

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, cash equivalents and restricted cash, which are deposited in major financial institutions in the U.S., 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 our customers. We also have a credit insurance policy for some of our 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 our management reasonably believes will be collected. To mitigate risks, we deposit cash and cash equivalents with high credit quality financial institutions. Provisions for doubtful debts are netted against "Accounts receivable-trade."

Inventory

Inventories include finished goods, work in process and raw materials. 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, in our opinion, factors indicate that impairment has occurred, we establish a reserve against the inventories’ carrying value. Our determination that a valuation reserve might be required, in addition to the quantification of such reserve, requires us to utilize significant judgment. Although we make every effort to ensure the accuracy of forecasts of future product demand, any significant unanticipated decreases in demand could have a material impact on the carrying value of our inventories and reported operating results. To date, inventory adjustments have not been material. With respect to inventory on consignment, see “Revenue recognition” below.

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 when product returns can be reliably estimated. When product returns can be reliably estimated a provision is recorded, based on historical experience, and deducted from revenues. The provision for sales returns and related costs are included in “Accounts payable and accruals - Other” under “current liabilities” and “Inventory on consignment,” respectively.

When returns cannot be reliably estimated, both related revenues and costs are deferred, and presented under "Deferred revenues" and "Inventory on consignment," respectively.

As of December 31, 2011, there was no deferred revenue in the balance sheet since, as of such date, the rate of returns could be reliably estimated.

Our revenue arrangements may contain delivery of free products upon the achievement of sales targets. Each period, we estimate the amount of free products to which these distributors will be entitled based upon the expected achievement of sales targets and defer a portion of revenues accordingly.

We recognize revenue net of value added tax.

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, which is 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.

We account for equity instruments issued to third party service providers (non-employees) by recording the fair value of the options granted using an option pricing model, at each reporting period, until rewards are vested in full. The

expense is recognized over the vesting period using the accelerated multiple option approach. The expense relates to options granted to third party service providers with respect to successful investor introductions that are recorded at their fair value in equity, as issuance costs.

In addition, certain of our share-based awards are performance based, i.e., the vesting of these awards depends upon achieving certain goals. We estimate the expected pre-vesting award probability, i.e., the expected likelihood that the performance conditions will be achieved, and only recognize expense for those shares expected to vest.

Uncertain tax and value added tax positions

We follow a two-step approach to recognizing and measuring uncertain tax and value added tax positions. The first step is to evaluate the tax and value added 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. The second step is to measure the tax and value added tax benefit as the largest amount that is more than 50% and 75%, respectively, likely of being 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 and penalties related to unrecognized tax benefits within financial expenses.

Results of Operations

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Revenues. For the three months ended March 31, 2012, total revenue decreased approximately $0.6 million, or 32.5%, to approximately $1.1 million from approximately $1.7 million during the same period in 2011. The $0.6 million decrease was attributable primarily to a decrease in volume, as described more fully below. The following is an explanation of the approximately $0.6 million decrease in revenue broken down by its main two components, a decrease in gross revenues of approximately $0.7 million offset by a net increase in deferred revenues of approximately $0.1 million.

For the three months ended March 31, 2012, total gross revenue decreased by approximately $0.6 million, or 37.4%, to approximately $1.1 million from approximately $1.7 million during the same period in 2011. This decrease is predominantly volume based, accounting for approximately $0.6 million or approximately 38.0%, with price increases partially offsetting this decrease by approximately $8,000, or approximately 0.6%. With respect to individual markets, this decrease in gross revenue is mainly attributable to the fact that we did not have any sales to our distributor in India during the first three months of 2012, as opposed to sales of approximately $1.2 million to this distributor during the first three months of 2011. This $1.2 million decrease due to the absence of any India shipments during the first three months of 2012 was partially offset by an increase in gross revenues from shipments made to other countries of approximately $0.6 million, consisting of an increase of approximately $0.2 million in gross revenue from our distributor in Mexico, an increase of approximately $0.1 million in gross revenue from our distributor in the Poland, an increase of approximately $0.1 million in gross revenue from our distributor in the Netherlands, an increase of approximately $0.1 million in gross revenue from our distributor in Germany and an increase of approximately $0.1 million in gross revenue from our distributor in Israel.

In general, we focused on increasing sales in existing markets during the three months ended March 31, 2012 by presenting clinical data at conferences and individual presentations to doctors about the merits of MGuard™.

Net deferred revenue recognized during the three months ended March 31, 2012 increased by approximately $0.1 million, or 905.9%, to approximately $0.1 million from approximately $10,000 during the same period in 2011. This increase was almost entirely volume based, partially offset by $3,000 attributable to price increases. The deferred revenue recognized during the three months ended March 31, 2012 was comprised of $120,000 of revenue that we deferred from the shipment to India in the first three months of 2011, discussed in the paragraph above. In contrast, our net deferred revenue for the three months ended March 31, 2011 consisted of approximately $0.1 million of deferred revenue from our distributor in India, as offset by recognized revenue of approximately $0.1 million attributable to our distributors in Israel and Poland, resulting in approximately $10,000 of net deferred revenue for the period. We did not defer any revenue during the three months ended March 31, 2012.

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Gross Profit. For the three months ended March 31, 2012, gross profit (revenue less cost of revenues) decreased 28.3%, or approximately $0.2 million, to approximately $0.6 million from approximately $0.8 million during the same period in 2011. The key driver of the decrease in gross profit was our decrease in net revenues of approximately $0.6 million described above, partially offset by an increase in the average selling price of our stents. For the three months ended March 31, 2012, our average selling price per stent recognized in revenue was $591, and we recognized the sale of 1,924 stents, compared to an average price of $543 per stent and 3,104 stents recognized in revenue for the same period in 2011. Our cost of goods sold per stent remained relatively flat at an average of approximately $290 per stent recognized in revenue for the three months ended March 31, 2012, as compared to the same period in 2011. Gross margin increased from 46.7% in the three months ended March 31, 2011 to 49.6% in the three months ended March 31, 2012.

Research and Development Expense. For the three months ended March 31, 2012, research and development expense increased 293.3%, or approximately $1.0 million, to approximately $1.4 million from approximately $0.4 million during the same period in 2011. The increase in cost resulted primarily from higher clinical trial expenses of approximately $0.8 million, attributable mainly to the U.S. Food and Drug Administration clinical trial (approximately $0.5 million) and the MGuard™ for Acute ST Elevation Reperfusion Trial (MASTER Trial) (approximately $0.4 million), partially offset by a decrease in other clinical trial expenses of approximately $0.1 million. In addition to the increase in clinical trial expenses, there was an increase of approximately $0.1 million in salaries and an increase of approximately $0.1 million in share based compensation due to us hiring additional clinical trial personnel, partially offset by an approximately $0.1 million reduction in miscellaneous expenses. Research and development expense as a percentage of revenue increased to 118.5% for the three months ended March 31, 2012 from 20.3% in the same period in 2011.

Selling and Marketing Expense. For the three months ended March 31, 2012, selling and marketing expense increased 4.0%, or approximately $15,000, to approximately $445,000, from approximately $430,000 during the same period in 2011. The increase in selling and marketing expense resulted primarily from approximately $140,000 of additional salaries and approximately $100,000 of additional share based compensation of predominately newly hired sales personnel as we expanded our sales activities worldwide. This increase was partially offset by a decrease of approximately $140,000 of commissions (primarily resulting from the first time shipment of $1.2 million to our distributor in India during the three months ending March 31 2011, as discussed above), approximately $70,000 in advertising expenses and approximately $15,000 in miscellaneous expenses. Selling and marketing expense as a percentage of revenue increased to 39.1% in 2012 from 25.4% in 2011.

General and Administrative Expense. For the three months ended March 31, 2012, general and administrative expense increased 59.9%, or approximately $0.7 million, to approximately $1.9 million from approximately $1.2 million during the same period in 2011. This increase resulted primarily from an increase in share based compensation of $0.8 million (which predominately pertains to directors' compensation), an increase of approximately $0.1 million in salary expenses (due to an increase in employee infrastructure to accommodate and comply with Securities and Exchange Commission standards and reporting), an increase of approximately $0.1 million in audit fees (to accommodate and comply with Securities and Exchange Commission standards and reporting), an increase of approximately $0.1 million in rent expense (resulting from us moving to a new location in order to support our expanding sales activities) and an increase of approximately $0.1 million in miscellaneous expenses. This increase was partially offset by a decrease of approximately $0.4 million in litigation expenses and $0.1 million in travel expenses. General and administrative expense as a percentage of revenue increased to 166.6% in 2012 from 70.3% in 2011.

Financial (Income) Expenses. For the three months ended March 31, 2012, financial expense decreased 101.5%, or approximately $0.7 million, to approximately $11,000 net financial income from $0.7 million net financial expense during the same period in 2011. The decrease in expense resulted primarily from a one-time financial expense of

approximately $0.6 million in the first quarter of 2011 pertaining to the revaluation of an outstanding convertible loan at fair value prior to redemption and a decrease of approximately $0.1 million of all other financial expenses, as offset by approximately $11,000 of financial income derived primarily from favorable exchange rate conversions. Financial (income) expense, as a percentage of revenue decreased from financial expense of 42.4% in 2011, to financial income of 1.0% in 2012.

Tax Expenses. Tax expense remained relatively flat at $25,000 for the three months ended March 31, 2012, as compared to $10,000 during the same period in 2011. Our expenses for income taxes reflect primarily the tax liability due to potential tax exposure.

Net Loss. Our net loss increased by approximately $1.2 million, or 65.7%, to $3.1 million for the three months ended March 31, 2012 from $1.9 million during the same period in 2011. The increase in net loss resulted primarily from an increase in operating expenses of approximately $1.7 million (see above for explanation) and a decrease of approximately $0.2 million in gross profit (see above for explanation). This increase was partially offset by a decrease in financial expenses of approximately $0.7 million (see above for explanation).

Twelve Months Ended December 31, 2011 Compared to Twelve Months Ended December 31, 2010

Revenues. For the twelve months ended December 31, 2011, total revenue increased approximately $1.1 million, or 21.3%, to approximately $6.0 million from approximately $4.9 million during the same period in 2010. The $1.1 million increase was attributable primarily to an increase in volume, as described more fully below. The following is an explanation of the approximately $1.1 million increase in revenue broken down by its main two components, an increase in gross revenues of approximately $2.5 million offset by a net decrease in deferred revenues of approximately $1.4 million.

For the twelve months ended December 31, 2011, total gross revenue increased by approximately $2.5 million, or 77.6%, to approximately $5.7 million from approximately $3.2 million during the same period in 2010. This increase in total gross revenue was predominantly volume based, with increased volume accounting for approximately $2.3 million, or approximately 72.5%, and price increases accounting for the remaining approximately $0.2 million, or approximately 5.1%. In general, we focused on opening new markets, such as India, and also increasing sales in existing markets by presenting clinical data at conferences and individual presentations to doctors about the merits of MGuardTM. With respect to individual markets, this increase in gross revenue was mainly attributable to the first time shipment of approximately $1.2 million to our distributor in India during the twelve months ended December 31, 2011, an increase of approximately $0.4 million of gross revenue from our new distributor in Russia, an increase of approximately $0.4 million of gross revenue from our distributor in Israel, an increase of approximately $0.3 million of gross revenue from our distributor in Brazil, an increase of approximately $0.2 million of gross revenue from our distributor in Spain, an increase of approximately $0.2 million of gross revenue from our distributor in Argentina, an increase of approximately $0.1 million of gross revenue from our distributor in South Africa, an increase of approximately $0.1 million of gross revenue from our new distributor for sales in Ukraine, an increase of approximately $0.1 million of gross revenue from our new distributor in the Netherlands and an increase of approximately $0.1 million of gross revenue from our distributor in Mexico. This increase was partially offset by a decrease of approximately $0.2 million in gross revenue from our distributor in Germany, a decrease of approximately $0.2 million in gross revenue from our distributor in Pakistan, a decrease of approximately $0.2 million from our distributor in Poland, a decrease of approximately $0.1 million in gross revenue from our distributor in Italy, and a decrease of approximately $0.1 million in gross revenue to our distributor in France, all due to lower sales volume to these suppliers. We also shipped and recognized gross revenue for approximately $0.2 million more from our remaining distributors during the twelve months ended December 31, 2011, as compared to the same period in 2010.

For the twelve months ended December 31, 2011, net deferred revenue recognized decreased by approximately $1.4 million, or 83.8%, to approximately $0.3 million from approximately $1.7 million during the same period in 2010. The key driver of this decrease was a decrease in the volume of revenue deferred to 2011 compared to the volume of revenue deferred to 2010, accounting for approximately $1.3 million, or approximately 74.5%, with the remaining approximately $0.1 million, or 9.3%, being driven by price decreases in the revenue deferred to 2011 compared to the revenue deferred to 2010. Revenue recognition out of deferred income had less of an impact in 2011 as compared to 2010 due to the fact that we deferred mainly shipments in 2008 and 2009 that were recognized in 2010. In 2010, only

a small set of customers had a large portion of their revenues deferred until 2011.

For the twelve months ended December 31, 2011, our net deferred revenue recognized consisted of approximately $0.2 million attributable to our distributor in Israel, approximately $0.1 million to our distributor in Brazil, and approximately $0.1 million to our distributor in Poland, offset by approximately $0.1 million deferred for a shipment to our distributor in India. Our distributor in Israel had a contractual right to return all purchases to us within 18 months of the purchase date. Due to our inability to accurately estimate the amount of future returns, all sales to this distributor were deferred until this 18 month return period elapsed. On May 9, 2011, our distributor in Israel agreed to revoke its previous rights to return purchases, resulting in all future sales being final. The deferred revenue of approximately $0.2 million recognized during the twelve month period ended December 31, 2011 accounted for all previous purchases by the distributor that the distributor no longer had a contractual right to return and were not yet recognized as revenues. Our distributor in Brazil has a contractual right to return all purchases for up to six months from the delivery date. Due to our inability to accurately estimate the amount of future returns by our distributor in Brazil, all sales made to it were also deferred until the six month return period elapsed. The deferred revenue of approximately $0.1 million recognized during the twelve month period ended December 31, 2011 accounted for purchases made in December 2010 that were not returned by the Brazilian distributor and were not yet recognized as revenues. In 2011, it was decided that due to lack of actual returns from the Brazilian distributor, despite the clause in their contract, we will no longer defer revenue pertaining to current shipments. Our distributor in India made their first purchase in 2011. Because of our inexperience with this distributor, management decided to defer a portion of the shipment until 2012, when it could better determine if a portion of it would be returned.

For the twelve months ended December 31, 2010, net deferred revenue recognized of approximately $1.7 million was comprised mainly of shipments from 2008 and 2009 to our distributor in Poland of approximately $1.3 million, to our distributor in Brazil of approximately $0.4 million. For the twelve months ended December 31, 2010, our distributor in Poland, subject to our sole discretion, had the right to return our products. Because we were unable to develop estimates for the level of returns, the $1.3 million worth of shipments made to the distributor in Poland that we recorded as deferred revenues was only recognized during the twelve months ended December 31, 2010 as revenues. As noted above, our distributor in Brazil has a contractual right to return all purchases for up to six months from the delivery date. As also noted above, due to our inability to accurately estimate the rate of return by this distributor, all sales made to it were also deferred until the six month return period elapsed. The deferred revenue of approximately $0.4 million recognized during the twelve months period ended December 31, 2010 accounted for purchases made in December 2009 that were not returned and were not yet recognized as revenues.

Gross Profit. For the twelve months ended December 31, 2011, gross profit (revenue less cost of revenues) increased 32.8%, or approximately $0.7 million, to approximately $3.0 million from approximately $2.3 million during the same period in 2010. Gross margin increased from 45.5% in the twelve months ended December 31, 2010 to 49.9% in the twelve months ended December 31, 2011. In addition to an increase in sales, we were able to improve our gross profit because of reduced production cost per stent driven by a reduction in price per unit from our subcontractor and economies of scale. For the twelve months ended December 31, 2011, our average selling price per stent recognized in revenue was $571, and we recognized the sale of 10,523 stents, compared to an average price of $606 per stent and 8,171 stents recognized in revenue for the same period in 2010. Our cost of goods sold per stent decreased from an average of $330 per stent recognized in revenue for the twelve months ended December 31, 2010 to an average of $286 per stent for the same period in 2011. The higher price per stent for the twelve months ended December 31, 2010 was affected by the price of stents sold in 2008 and 2009 to one of our European distributors in Euros when the Euro was much stronger than the U.S. dollar, at an average price of $997 when translated to U.S. dollars.

Research and Development Expense. For the twelve months ended December 31, 2011, research and development expense increased 84.9%, or approximately $1.2 million, to approximately $2.5 million from approximately $1.3 million during the same period in 2010. The increase in cost resulted primarily from higher clinical trial expenses of approximately $1.2 million, attributable mainly to the U.S. Food and Drug Administration clinical trial (approximately $0.9 million) and the MGuard for Acute ST Elevation Reperfusion Trial (MASTER Trial)

(approximately $0.3 million), and an increase of approximately $0.3 million in salaries, offset by approximately $0.2 million reduction in miscellaneous expenses and approximately $0.1 million reduction in share based compensation. Research and development expense as a percentage of revenue increased to 41.2% in 2011 from 27.0% in 2010.

Selling and Marketing Expense. For the twelve months ended December 31, 2011, selling and marketing expense increased 59.6%, or approximately $0.7 million, to approximately $2.0 million from approximately $1.3 million during the same period in 2010. The increase in selling and marketing expense resulted primarily from approximately $0.3 million of additional salaries and approximately $0.4 million of share based compensation of predominately newly hired sales personnel as we expanded our sales activities worldwide, and approximately $0.1 million of commissions pertaining mainly to our first time shipment of approximately $1.2 million to our distributor in India. This increase was partially offset by a decrease of approximately $0.1 million in advertising expenses. Selling and marketing expense as a percentage of revenue increased to 32.9% in 2011 from 25.0% in 2010.

General and Administrative Expense. For the twelve months ended December 31, 2011, general and administrative expense increased 323.6%, or approximately $9.4 million, to approximately $12.3 million from $2.9 million during the same period in 2010. The increase resulted primarily from an increase in share based compensation of $7.5 million (which predominately pertains to directors' compensation), an increase of approximately $0.5 million in salary expenses (due to an increase in employee infrastructure to accommodate and comply with Securities and Exchange Commission standards and reporting), an increase in investor related activities of approximately $0.5 million (due to us having been a publicly reporting company during the twelve months ended December 31, 2011, but not during the same period in 2010), an increase of approximately $0.5 million in litigation expenses (primarily due to a provision for our potential loss related to a threatened lawsuit from a finder claiming a future success fee and commissions for assistance in finding our distributor in Brazil), approximately $0.3 million in legal fees (also related primarily to compliance with Securities and Exchange Commission standards), and approximately $0.2 million in audit fees to accommodate and comply with Securities and Exchange Commission standards and reporting. This increase was partially offset by a decrease of approximately $0.1 million in miscellaneous expenses. General and administrative expense as a percentage of revenue increased to 204.4% in 2011 from 58.6% in 2010.

Financial Expenses. For the twelve months ended December 31, 2011, financial expense increased 506.5%, or approximately $0.8 million, to approximately $1.0 million from $0.2 million during the same period in 2010. The increase in expense resulted primarily from a one-time financial expense recording of approximately $0.6 million in the first quarter of 2011 pertaining to the revaluation of an outstanding convertible loan at fair value prior to redemption and approximately $0.2 million for the favorable impact of exchange rate differences for the twelve months ended December 31, 2010 that did not occur during the twelve months ended December 31, 2011. Financial expense as a percentage of revenue increased from 3.1% in 2010 to 15.6% in 2011.

Tax Expenses. Tax expense remained relatively flat at $2,000 for the twelve months ended December 31, 2011, as compared to $47,000 during the same period in 2010. Our expenses for income taxes reflect primarily the tax liability due to potential tax exposure.

Net Loss. Our net loss increased by approximately $11.3 million, or 328.8%, to $14.7 million for the twelve months ended December 31, 2011 from $3.4 million during the same period in 2010. The increase in net loss resulted primarily from an increase in operating expenses of approximately $11.2 million (see above for explanation) and an increase of approximately $0.8 million in financial expenses (see above for explanation). This increase was partially offset by an increase in gross profit of approximately $0.7 million (see above for explanation).

Twelve Months Ended December 31, 2010 Compared to Twelve Months Ended December 31, 2009

Revenues. For the twelve months ended December 31, 2010, total revenue increased approximately $1.5 million, or 45.1%, to approximately $4.9 million from approximately $3.4 million in 2009. The $1.5 million increase in revenue was primarily attributable to an increase in the amount of net deferred revenues recognized during 2010.

For a description of the revenue deferred to 2010, see "Twelve Months Ended December 31, 2011 Compared to Twelve Months Ended December 31, 2010" above.

For the twelve months ended December 31, 2009, net deferred revenue of approximately $0.1 million was comprised mainly of shipments made in 2009 but deferred and recognized in 2010 to our distributor in Brazil in the amount of approximately $0.4 million, to our distributor in Poland in the amount of $0.2 million and to our distributor in Israel in the amount of $0.2 million, offset by shipments made in 2008 but deferred and recognized in revenue in 2009 from our distributor in Italy in the amount of $0.5 million, and from our distributor in Cyprus in the amount of $0.2 million. All revenue in 2008 from our distributors in Italy and Cyprus was deferred to 2009, as we did not have a sufficient history of sales in order to estimate returns. See "Twelve Months Ended December 31, 2011 Compared to

Twelve Months Ended December 31, 2010" above for the material reasons why our other revenue was deferred and/or recognized for each of the other distributors listed above.

Total gross revenue for the twelve months ended December 31, 2010 remained relatively flat in comparison to the twelve months ended December 31, 2009, increasing by approximately $46,000. This increase was predominantly volume based, with increased volume accounting for approximately $263,000, offset by price decreases in the amount of $217,000. The increase in volume was evenly distributed among our distributors. The decrease in prices were due to our penetration of newly opened markets, namely Brazil, Slovakia and Cypress, in 2010, which required reduced prices as compared to 2009.

Gross Profit. For the twelve months ended December 31, 2010, gross profit (revenue less cost of revenues) increased 101.2%, or approximately $1.1 million, to approximately $2.2 million from approximately $1.1 million during the same period in 2010. Our gross margin percentage for the twelve months ended December 31, 2010 increased to 45.5% of revenues, compared to 32.8% during the same period in 2009. In addition to an increase in sales, we were able to improve our gross profit because of reduced production cost per stent driven by reduction in price per unit from our subcontractor and economies of scale. For the twelve months ended December 31, 2010, our average selling price per stent recognized in revenue was $606, and we recognized the sale of 8,171 stents, compared to an average price of $577 per stent and 5,910 stents recognized in revenue for the same period in 2009. Our cost of goods sold per stent decreased from an average of $380 per stent recognized in revenue for the twelve months ended December 31, 2009 to an average of $330 per stent for the same period in 2010. The higher price per stent for the twelve months ended December 31, 2010 was affected by the price of stents sold in 2008 and 2009 to one of our Europeans distributors in Euros when the Euro was much stronger than the U.S. dollar, at an average price of $997 when translated to U.S. dollars.

Research and Development Expense. For the twelve months ended December 31, 2010, research and development expense remained relatively flat at approximately $1.3 million as compared to the same period in 2009. Research and development expense as a percentage of revenue decreased to 27.0% in 2010 from 39.0% in 2009.

Selling and Marketing Expense. For the twelve months ended December 31, 2010, selling and marketing expense increased approximately $0.2 million, or 18.8%, to approximately $1.2 million from approximately $1.0 million during the same period in 2009. The increase in cost resulted primarily from an increase of approximately $0.2 million in advertising expenses. Selling and marketing expense as a percentage of revenue decreased to 25.0% in 2010 from 30.5% in 2009.

General and Administrative Expense. For the twelve months ended December 31, 2010, general and administrative expense increased approximately $1.4 million, or 97.5% to approximately $2.9 million from approximately $1.5 million during the same period in 2009. The increase resulted primarily from an increase in share based compensation of approximately $0.7 million (of which approximately $0.5 million related to employees and $0.2 million related to directors), an increase of approximately $0.2 million in audit fees (as we prepared for the transition from Israel GAAP to U.S. GAAP), an increase of $0.1 million in salary expenses, and an increase of approximately $0.4 million in other expenses (due to our overall expansion). General and administrative expense as a percentage of revenue increased to 58.6% in 2010 from 43.0% in 2009.

Financial Expenses (Income). For the twelve months ended December 31, 2010, financial expense increased to approximately $0.2 million from income of $4,000 for the same period in 2009. The increase in expense resulted primarily from a one time financial income recording of $0.3 million in 2009 pertaining to the cancellation of the conversion feature of a convertible loan that was repaid in the same year. Financial expense as a percentage of revenue increased to 3.1% in 2010, compared to financial income as a percent of revenue of 1.2% in 2009.

Tax Expenses. Tax expense remained flat at $47,000 for the twelve months ended December 31, 2010 and 2009. Our expenses for income taxes reflect primarily the tax liability due to potential tax exposure.

Net Loss. Our net loss increased by approximately $0.7 million, or 25.6%, to approximately $3.4 million in 2010 from approximately $2.7 million during the same period in 2009. The increase in net loss resulted primarily from an increase in operating expenses of approximately $1.6 million (see above for explanation) and an increase of approximately $0.2 million in financial expenses (see above for explanation). This increase was partially offset by an increase in gross profit of approximately $1.1 million (see above for explanation).

Liquidity and Capital Resources

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

General. At March 31, 2012, we had cash and cash equivalents of approximately $3.4 million, as compared to $5.1 million as of December 31, 2011. The decrease is attributable primarily to our net loss. We have historically met our cash needs through a combination of issuance of new shares, borrowing activities and sales. Our cash requirements are generally for product development, clinical trials, marketing and sales activities, finance and administrative cost, capital expenditures and general working capital.

Cash used in our operating activities was approximately $1.6 million for the three months ended March 31, 2012, and approximately $0.4 million for the same period in 2011. The principal reasons for the usage of cash in our operating activities for the three months ended March 31, 2012 include a net loss of approximately $3.1 million, offset by approximately $1.2 million in non-cash share based compensation and an increase in working capital of approximately $0.3 million.

Cash used in our investing activities was approximately $50,000 during the three months ended March 31, 2012, compared to approximately $100,000 of cash used in investing activities during the same period in 2011. The principal reason for the decrease in cash flow from investing activities during 2012 was the purchase of approximately $80,000 of new manufacturing equipment and the funding of employee retirement funds of approximately $20,000, offset by a decrease in restricted cash of approximately $50,000.

Cash used in financing activities was approximately $0.1 million for the three months ended March 31, 2012, compared to $9.5 million generated from financing activities for the same period in 2011. The principal reason for the change was the repayment of a long-term loan in the amount of approximately $0.1 million during the three months ended March 31, 2012. In contrast, during the three months ended March 31, 2011, we completed a private placement financing that resulted in net proceeds to us of $9.5 million.

As of March 31, 2012, our current assets exceeded current liabilities by a multiple of 2.3. Current assets decreased approximately $2.0 million during the first three months of 2012, mainly due to cash used in operations, and current liabilities remained relatively flat during the same period. As a result, our working capital surplus decreased by approximately $2.0 million to approximately $4.4 million during the three months ended March 31, 2012.

Credit Facilities. Prior to March 31, 2012, we had a long term loan with an aggregate principal amount outstanding of approximately $750,000 bearing interest at the three month U.S. Dollar LIBOR rate plus 4% per annum. The loan was payable in eight quarterly installments during a period of three years that began in April 2010. The loan was repaid on January 31, 2012.

We believe that funds available as of May 7, 2012, together with our anticipated revenues, are expected to fund our operations until at least the first quarter of 2013, assuming our MGuard™ for Acute ST Elevation Reperfusion Trial (MASTER Trial) is successful and, as a result, we invest significantly in sales and marketing. However, if our MGuard™ for Acute ST Elevation Reperfusion Trial (MASTER Trial) is not as successful as anticipated and we scale back expansion plans and general overhead, funds available as of May 7, 2012, together with our anticipated revenues, are expected to fund our operations through the end of 2013. Thereafter, or before then to expand the breadth of our present business, we will need to raise further capital, through the sale of additional equity securities or otherwise. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our MGuard™ products, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product offerings. However, we may be unable to raise sufficient additional capital when we need it

or raise capital on favorable terms. The terms of any securities issued by us in future financings may be more favorable to new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of our securities then outstanding. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly, possibly postpone or halt our U.S. Food and Drug Administration clinical trial or obtain funds by entering into financing agreements on unattractive terms.

Twelve Months Ended December 31, 2011 Compared to Twelve Months Ended December 31, 2010

General. At December 31, 2011, we had cash and cash equivalents of approximately $5.1 million, as compared to $0.6 million at December 31, 2010. The increase is attributable primarily to the private placement conducted in conjunction with the share exchange transactions on March 31, 2011 and other private equity issuances prior to and after the share exchange transactions. We have historically met our cash needs through a combination of issuance of new shares, borrowing activities and sales. Our cash requirements are generally for product development, clinical trials, marketing and sales activities, finance and administrative cost, capital expenditures and general working capital.

Cash used in our operating activities was approximately $6.0 million for the twelve months ended December 31, 2011, and approximately $2.7 million for the same period in 2010. The principal reasons for the usage of cash in our operating activities for the twelve months ended December 31, 2011 included a net loss of approximately $14.7 million and a decrease in working capital of approximately $2.0 million, offset by approximately $9.6 million in non-cash share based compensation, an approximately $0.9 million in non-cash financial expenses related to the revaluation of a convertible loan and approximately $0.2 million of all other non-cash operating expenses.

Cash provided by our investing activities was approximately $13,000 during the twelve months ended December 31, 2011, compared to approximately $46,000 of cash used by investing activities during the same period in 2010. The principal reason for the decrease in cash flow from investing activities during 2011 was a decrease in restricted cash of approximately $160,000 offset by the purchase of approximately $140,000 of new manufacturing equipment.

Cash flow generated from financing activities was approximately $10.7 million for the twelve months ended December 31, 2011, and $3.0 million for the same period in 2010. The principal reason for the increase in cash flow from financing activities during 2011 was the private placement conducted in conjunction with the share exchange transactions on March 31, 2011 and other private equity issuances and exercise of options prior to and after the share exchange transactions in the aggregate amount of approximately $12.1 million, offset by the repayment of the non-converted portion of a convertible loan in the amount of approximately $1.0 million and the partial repayment of a long-term loan in the amount of approximately $0.4 million.

As of December 31, 2011, our current assets exceeded current liabilities by a multiple of 2.8. Current assets increased approximately $5.9 million during 2011, mainly due to cash raised from the private placements in 2011, while current liabilities decreased approximately $0.5 million during the same period. As a result, our working capital surplus increased by approximately $6.4 million to approximately $6.3 million during the twelve months ended December 31, 2011.

Credit Facilities. As of December 31, 2011, we had a long term loan in the amount of approximately $0.1 million bearing interest at the three month U.S. Dollar LIBOR rate plus 4% per annum. The loan was payable in eight quarterly installments during a period of three years that began in April 2010 and ended in January 2012. According to the loan agreement, in case of an “exit transaction,” we would have been required to pay to the bank an additional $0.25 million if the sum received in a “liquidity event” or the value of the company in an “IPO” is higher than $100 million. This loan was repaid on January 31, 2012.

Convertible Loans. Prior to December 31, 2011, we had a convertible loan with an aggregate principal amount outstanding of approximately $1.58 million that bore 8% interest. Following the share exchange transactions on March 31, 2011, $580,000 plus accrued interest converted into shares of our common stock. The remaining principle in the amount of $1.0 million was repaid on May 15, 2011.

Sales of Stock. For the twelve months ended December 31, 2011, we issued an aggregate of 12,315,145 shares of common stock and warrants to purchase 6,709,073 shares of common stock for gross proceeds of approximately $13.7

million and corresponding net proceeds of approximately $12.1 million.

Twelve Months Ended December 31, 2010 Compared to Twelve Months Ended December 31, 2009

General. At December 31, 2010, we had cash and cash equivalents of approximately $0.6 million, as compared to $0.4 million at December 31, 2009.

Cash used in our operating activities was approximately $2.7 million for the twelve months ended December 31, 2010, and approximately $1.5 million for the same period in 2009. The principal reasons for the increase in cash used in operations in 2010 included a net loss of approximately $3.4 million, a decrease of approximately $1.6 million in deferred revenues offset by approximately $1.6 million of non cash share based compensation expense, an increase of approximately $0.4 million in other working capital and $0.3 million of other non cash adjustments.

Cash used in investing activities was approximately $46,000 for the twelve months ended December 31 2010 and approximately $0.3 million for the same period in 2009. The principal reasons for the decrease in cash flow from investing activities included approximately $81,000 for plant and equipment purchases offset by a decrease of approximately $52,000 in restricted cash.

Cash flow generated from financing activities was approximately $3.0 million for the twelve months ended December 31, 2010, and approximately $0.7 million for the same period in 2009. The principal reasons for the increase in cash flow from financing activities during 2010 were the issuance of approximately $1.8 million in new shares and the issuance of a convertible loan of approximately $1.5 million, offset by the repayment of a long term loan in the amount of approximately $0.3 million.

As of December 31, 2010, current assets were approximately equal with our current liabilities. Current assets decreased approximately $0.2 million during the twelve months ended December 31, 2010 while current liabilities decreased by approximately $1.5 million during the same period. As a result, our working capital deficiency decreased by approximately $1.2 million to approximately $53,000 during the twelve months ended December 31, 2010.

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 October 2009, the Financial Accounting Standards Board issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and require companies to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, the amendments eliminate the residual method for allocating arrangement considerations. We do not expect the standard to have material effect on its consolidated financial statements.

In January 2010, the Financial Accounting Standards Board updated the “Fair Value Measurements Disclosures”. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. This update will become effective as of the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, or ASU 2011-04. ASU 2011-04 changes certain fair value measurement principles and clarifies the application of existing fair value measurement guidance. These amendments require, among other things, (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity’s shareholders’ equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. For public entities, ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, on a prospective basis. Effective January 1, 2012, we adopted ASU 2011-04. The adoption of this accounting standards update did not have a material impact on our consolidated financial statements.

Factors That May Affect Future Operations

We believe that our future operating results will continue to be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of the ordering patterns of our distributors, timing of regulatory approvals, the implementation of various phases of our clinical trials and manufacturing efficiencies due to the learning curve of utilizing new materials and equipment. Our operating results could also be impacted by a weakening of the Euro and strengthening of the New Israeli Shekel, or NIS, both against the U.S. dollar. Lastly, other economic conditions we cannot foresee may affect customer demand, such as individual country reimbursement policies pertaining to our products.

Tabular Disclosure of Contractual Obligations

The following table summarizes our outstanding contractual obligations as of December 31, 2011:

Payments due by period (amounts in thousands)

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long-term loan (1)	$ 94	$ 94	$ 0	$ 0	$ 0
Operating lease obligations (2)	858	304	554	0	0
Accounts Payable	1,670	1,670	0	0	0
Total	$ 2,622	$ 2,068	$ 554	$ 0	$ 0

(1) Our long-term loan obligations as of December 31, 2011 consisted of a loan with Mizrahi Tefahot Bank. According to our agreement with Mizrahi Tefahot Bank, we received a loan amounting to $750,000, bearing annual interest (quarterly paid) equal to LIBOR + 4%. The loan is payable in eight quarterly installments during a period of 3 years beginning April 2010. As of December 31, 2011, the remaining balance outstanding of this loan was $94,000.

(2) Our operating lease obligations consist of the lease for our offices and manufacturing facilities in Tel Aviv, Israel and the leases for the majority of our company cars.

Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to fluctuations in interest rates and in foreign currency exchange rates.

Interest Rate Exposure

Our exposure to market risk relates primarily to short-term investments, including funds classified as cash equivalents. As of December 31, 2011, all excess funds were invested in time deposits and other highly liquid investments, therefore our interest rate exposure is not considered to be material.

Foreign Currency Exchange Rate Exposure

Our foreign currency exchange rate exposure continues to evolve as we grow internationally. Our exposure to foreign currency transaction gains and losses is the result of certain revenues and expenses being denominated in currencies other than the U.S. dollar, primarily the Euro and the New Israeli Shekel. We do not currently engage in hedging or similar transactions to reduce these risks. Fluctuations in currency exchange rates could impact our results of operations, financial position, and cash flows.

Business

History

We were organized in the State of Delaware on February 29, 2008 as Saguaro Resources, Inc. to engage in the acquisition, exploration and development of natural resource properties. On March 28, 2011, we changed our name from “Saguaro Resources, Inc.” to “InspireMD, Inc.”

On March 31, 2011, we completed a series of share exchange transactions pursuant to which we issued the shareholders of InspireMD Ltd. 50,666,663 shares of common stock in exchange for all of InspireMD Ltd.’s issued and outstanding ordinary shares, resulting in the former shareholders of InspireMD Ltd. holding a controlling interest in us and InspireMD Ltd. becoming our wholly-owned subsidiary.

Immediately following the share exchange transactions, we transferred all of our pre-share exchange operating assets and liabilities to our wholly-owned subsidiary, Saguaro Holdings, Inc., a Delaware corporation, and transferred all of Saguaro Holdings, Inc.’s outstanding capital stock to Lynn Briggs, our then-majority stockholder and our former president, chief executive officer, chief financial officer, secretary-treasurer and sole director, in exchange for the cancellation of 7,500,000 shares of our common stock held by Ms. Briggs.

After the share exchange transactions and the divestiture of our pre-share exchange operating assets and liabilities, we succeeded to the business of InspireMD Ltd. as our sole line of business, and all of our then-current officers and directors resigned and were replaced by some of the officers and directors of InspireMD Ltd.

Overview

We are a medical device company focusing on the development and commercialization of our proprietary stent platform technology, MGuard™. MGuard™ provides embolic protection in stenting procedures by placing a micron mesh

sleeve over a stent (see photograph below of an MGuard™ Stent). Our initial products are marketed for use mainly in patients with acute coronary syndromes, notably acute myocardial infarction (heart attack) and saphenous vein graft coronary interventions (bypass surgery). According to the TYPHOON STEMI trial (New England Journal of Medicine, 2006) and the SOS SVG Trial (Journal of the American College of Cardiology, 2009), of patients with acute myocardial infarction and saphenous vein graft coronary interventions, 7.5% to 44% experience major adverse cardiac events, including cardiac death, heart attack, and restenting of the artery. When performing stenting procedures in patients with acute coronary symptoms, interventional cardiologists face a difficult dilemma in choosing between bare-metal stents, which have a high rate of restenosis (formation of new blockages), and drug-eluting (drug-coated) stents, which have a high rate of late thrombosis (formation of clots months or years after implantation), require administration of anti-platelet drugs for at least one year post procedure, are more costly than bare-metal stents and have additional side effects. We believe that MGuard™ is a simple and seamless solution for these patients.

MGuardTM Sleeve – Microscopic View

We intend to study our MGuard™ technology for use in a broad range of coronary related situations in which complex lesions are required and intend to seek to make it an industry standard for treatment of acute coronary syndromes. We believe that patients will benefit from a cost-effective alternative which we believe will prove to have a superior clinical efficacy and safety profile than other stent technologies. We believe that with our MGuard™ technology, we are well positioned to emerge as a key player in the global stent market.

We also intend to apply our technology to develop additional products used for other vascular procedures, specifically carotid (the arteries that supply blood to the brain) and peripheral (other arteries) procedures.

In October 2007, our first generation product, the MGuard™ Coronary, received CE Mark approval for treatment of coronary arterial disease in the European Union. CE Mark is a mandatory conformance mark on many products marketed in the European Economic Area and certifies that a product has met European Union consumer safety, health or environmental requirements. We began shipping our product to customers in Europe in January 2008 and have since expanded our global distribution network to Canada, Southeast Asia, India and Latin America.

Our initial MGuard™ products incorporated a stainless steel stent. We replaced this stainless steel platform with a more advanced cobalt-chromium based platform, which we refer to as MGuard Prime™. We believe the new platform will prove to be superior because cobalt-chromium stents are generally known in the industry to provide better outcomes and possibly even a reduction in major adverse cardiac events. We believe we can use and leverage the MGuard™ clinical trial results to market MGuard Prime™. MGuard Prime™ received CE Mark approval in the European Union in October 2010 for improving luminal diameter and providing embolic protection. MGuard™ refers to both our initial products and MGuard Prime™, as applicable.

Business Segment and Geographic Areas

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. “Entity Wide Disclosures” to our Consolidated Financial Statements.

Our Industry

According to Fact Sheet No. 310/June 2011 of the World Health Organization, approximately 7.3 million people worldwide died of coronary heart disease in 2008. 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. A stent is an expandable “scaffold-like” device, usually constructed of a stainless steel material, that is inserted into an artery to expand the inside passage and improve blood flow.

According to the January 3, 2011 2011 MEDTECH OUTLOOK produced by the Bank of Montreal Investment Banking Group, known as BMO Capital Markets, after registering a compounded annual growth rate from 2002 to 2009 of approximately 13%, the revenues from global coronary stents market is predicted to remain relatively constant, although in volume of stents the market is predicted to continue to grow. The growth in volume is due to the appeal for less invasive percutaneous coronary intervention procedures and advances in technology coupled with the increase in the elderly population, obesity rates and advances in technology.

Coronary artery disease is one of the leading causes of death worldwide. The treatment of coronary artery disease includes alternative treatment methodologies, that is, coronary artery bypass grafting or angioplasty (percutaneous coronary intervention) with or without stenting. According to the January 3, 2011 2011 MEDTECH OUTLOOK produced by the BMO (Bank of Montreal) Investment Banking Group, the percutaneous coronary intervention procedures involving stents are increasingly being used to treat coronary artery diseases with an 88.3% penetration rate in 2009.

Our Products

The MGuard™ stent is an embolic protection device based on a protective sleeve, which is constructed out of an ultra-thin polymer mesh and wrapped around the stent. The protective sleeve is comprised of a micron level fiber-knitted mesh, engineered in an optimal geometric configuration and designed for utmost flexibility while retaining strength characteristics of the fiber material (see illustration below). The sleeve expands seamlessly when the stent is deployed, without affecting the structural integrity of the stent, and can be securely mounted on any type of stent.

MGuardTM Deployed in Artery

The protective sleeve is designed to provide several clinical benefits:

- the mesh diffuses the pressure and the impact of deployment exerted by the stent on the arterial wall and reduces the injury to the vessel;
- it reduces plaque dislodgement and blocks debris from entering the bloodstream during and post procedure (called embolic showers);
- in future products, when drug coated, the mesh is expected to deliver better coverage and uniform drug distribution on the arterial wall and therefore potentially reduce the dosage of the active ingredient when compared to approved drug-eluting stents on the market; and
- it maintains the standards of a conventional stent and therefore should require little to no additional training by physicians.

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MGuardTM – Coronary Applications

Our MGuardTM Coronary with a bio-stable mesh and our MGuardTM Coronary with a drug-eluting mesh are aimed at the treatment of coronary arterial disease.

MGuardTM Coronary and MGuard Prime™ with a bio-stable mesh Our first MGuardTM product, the MGuardTM Coronary with a bio-stable mesh, is comprised of our mesh sleeve wrapped around a bare-metal stent. It received CE Mark approval in October 2007 and, in January 2008, we started shipping this product to customers and distributors in Europe. MGuard Prime™ with a bio-stable mesh is comprised of our mesh sleeve wrapped around a cobalt-chromium stent. In comparison to a conventional bare-metal stent, we believe the MGuardTM Coronary and MGuard Prime™ with a bio-stable mesh provide protection from embolic showers. Results of clinical trials on the MGuardTM Coronary stent, including the MAGICAL, PISCIONE and MGuard international registry (iMOS) clinical trials described below (see "Business – Product Development and Critical Milestones - Comparison of Clinical Trial Results to Date with Results Achieved Using Bare Metal or Drug-Eluting Stents in the STEMI population" below), indicate positive outcomes and safety measures, as explained below (see "Business – Product Development and Critical Milestones - Comparison of Clinical Trial Results to Date with Results Achieved Using Bare Metal or Drug-Eluting Stents in the STEMI population" below). The results of these clinical trials for the MGuardTM Coronary stent suggest higher levels of myocardial blush grade 3 (occurrence in 73% of patients in the MAGICAL study and 90% of patients in the PISCIONE study, for the MGuardTM Coronary stent) and lower rates of 30 day and 1 year major adverse cardiac event rates, (2.4% and 5.9%, respectively, for the MGuardTM Coronary stent), as compared to the levels and rates of other bare-metal and drug-eluting stents, as reported by Svilaas, et. al. ("Thrombus Aspiration during Primary Percutaneous Coronary Intervention," New England Journal of Medicine, Volume 358, 2008). As reported in the study by Svilaas, et. al., myocardial blush grade 3 occurred in 32.2% of patients with a bare-metal stent and 45.7% of patients with a bare-metal stent preceded by an aspiration procedure, and the 30 day and 1 year major adverse cardiac event rates were 9.4% and 20.3%, respectively, for patients with a bare-metal stent and 6.8% and 16.6%, respectively, for patients with a bare-metal stent preceded by an aspiration procedure. Furthermore, results from a recent HORIZONS-AMI trial demonstrated that 1 year major adverse cardiac event rates were 10.9% for patients with drug eluting stents. Myocardial blush grade refers to a 0-3 grade scale given to the adequacy of perfusion and blood flow through an area served by a coronary artery; the longer the blush persists, the poorer the blood flow and the lower the myocardial blush grade. Ndrepepa, et. al. ("5-Year Prognostic Value of No-Reflow Phenomenon After Percutaneous Coronary Intervention in Patients With Acute Myocardial Infarction," Journal of the American College of Cardiology, Volume 55, Issue 21, 2010) reported that high myocardial blush grades correlate with higher survival rates among affected patients. Sustained performance by the MGuardTM Coronary stent with respect to contributing to higher levels of myocardial blush grade 3 and lower rates of 30 day and 1 year major adverse cardiac event rates would differentiate the MGuardTM Coronary stent from other bare-metal and drug-eluting stents that do not offer such benefits.

MGuardTM Coronary with a drug eluting bio-absorbable mesh. Based upon the clinical profile of MGuardTM Coronary, we anticipate that the MGuardTM Coronary with a drug-eluting bio-absorbable mesh will offer both the comparable myocardial blush grade 3 levels and 30-day and 1-year major adverse cardiac event rates as the MGuardTM Coronary with a bio-stable mesh, as described above, and a comparative restenosis rate, which is the rate at which patients experience formation of new blockages in their arteries, when compared to existing drug-eluting stents. The bio-absorbability of MGuardTM Coronary with a drug eluting bio-absorbable mesh is intended to improve upon the bio-absorbability of other drug-eluting stents, in light of the large surface area of the mesh and the small diameter of the fiber. We intend to study whether the protective sleeve on the MGuardTM Coronary with a drug-eluting bio-absorbable mesh can improve uniform distribution of the applied drug to the vessel wall for improved drug therapy management compared to other drug-eluting stents, where the drug is distributed on the struts only. If this intended result is achieved with respect to the improved and uniform distribution of the applied drug to

the vessel wall, the total dosage of the medication potentially could be reduced while increasing its efficacy. MGuardTM Coronary with a drug-eluting bio-absorbable mesh is expected to promote smooth and stable endothelial cell growth and subsequent attachment to the lumen of the vessel wall, which is essential for rapid healing and recovery. In addition, we believe bio-absorbable drug-eluting mesh may enable the use of more effective drug therapies that presently cannot be effectively coated on a metal-based stent due to their poor diffusion capabilities. Because the drug-eluting bio-absorbable mesh will be bio-absorbable, we anticipate that the mesh will completely dissolve after four months, which we expect will result in fewer of the chronic long term side effects that are associated with the presence of the drug.

MGuardTM – Carotid Applications

We intend to market our mesh sleeve coupled with a self-expandable stent (a stent that expands without balloon dilation pressure or need of an inflation balloon) for use in carotid-applications. We believe that our MGuardTM design will provide substantial advantages over existing therapies in treating carotid artery stenosis (blockage or narrowing of the carotid arteries), like conventional carotid stenting and endarterectomy (surgery to remove blockage), given the superior embolic protection characteristics witnessed in coronary arterial disease applications. We intend that the embolic protection will result from the mesh sleeve, as it traps emboli at their source. In addition, we believe that MGuardTM Carotid will provide post-procedure protection against embolic dislodgement, which can occur immediately after a carotid stenting procedure and is often a source of post-procedural strokes. 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 also shown that the majority of the incidents of embolic showers associated with carotid stenting occur immediately post-procedure.

MGuardTM – Peripheral Applications

We intend to market our mesh sleeve coupled with a self-expandable stent (a stent that expands without balloon dilation pressure or need of an inflation balloon) for use in peripheral applications. Peripheral Artery Disease, also known as peripheral vascular disease, is usually characterized by the accumulation of plaque in arteries in the legs, need for amputation of affected joints or even death, when untreated. Peripheral Artery Disease 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.

The Peripheral Artery Disease market consists of three segments: Aortic Aneurysm, Renal, Iliac and Bilary and Femoral-Popliteal procedures. Aortic Aneurysm is a condition in which the aorta, the artery that leads away from the heart, develops a bulge and is likely to burst. This condition often occurs below the kidneys, in the abdomen. Renal, Iliac and Bilary procedures refer to stenting in the kidney, iliac arteries (which supply blood to the legs) and liver, respectively. Femoral-Popliteal procedures involve stenting in vessels in the legs.

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 covered stents, at the risk of blocking branching vessels, to ensure that emboli does not fall into the bloodstream. We believe that our MGuardTM design will provide substantial advantages over existing therapies in treating peripheral artery stenosis (blockage or narrowing of the peripheral arteries).

Product Development and Critical Milestones

Below is a list of the products described above and our projected critical milestones with respect to each. As used below, "Q" stands for our fiscal quarter. While we currently anticipate seeking approval from the U.S. Food and Drug Administration for all of our products in the future, we have only outlined a timetable to seek U.S. Food and Drug Administration approval for our MGuardTM Coronary plus with bio-stable mesh product in our current business plan. The use of the term "to be determined" in the table below with regard to certain U.S. Food and Drug Administration trial milestones indicates that the achievements of such milestones is unable to be accurately predicted as such milestones are too far in the future.

Product	Indication	Start Development	CE Mark	European Union	FDA Approval	U.S. Sales

				Sales		
MGuard™ Coronary Plus Bio-Stable Mesh	Bypass/ Coronary	2005	Oct. 2007	Q1-2008	Q3-2016-Q4-2016	2016
MGuard™ Peripheral Plus Bio-Stable Mesh	Peripheral Arteries	Q1-2011	Q4-2012	To be determined	To be determined	To be determined
MGuard™ Carotid Plus Bio-Stable Mesh	Carotid Arteries	Q1-2011	Q4-2012	To be determined	To be determined	To be determined
MGuard™ Coronary Plus Bio-Absorbable Drug-Eluting Mesh	Bypass/ Coronary	To be determined	To be determined	To be determined	To be determined	To be determined

With respect to the timetable for MGuard™ Coronary Plus Bio-Stable Mesh, the expected timing for the U.S. Food and Drug Administration approval and U.S. sales has been changed due to unanticipated delays in the U.S. Food and Drug Administration approval process. With respect to the timetable for MGuard™ Peripheral Plus Bio-Stable Mesh, the expected commencement of sales in the European Union has been delayed on account of our desire to provide extra time after obtaining CE Mark approval to promote our product and develop a proper launching program for it. With respect to MGuard™ Carotid Plus Bio-Stable Mesh, we have determined that the expected commencement of sales in the European Union can no longer be accurately predicted because we have delayed the further development of this product subject to obtaining additional funding for its development.

We anticipate that our MGuardTM Coronary plus with bio-stable mesh product will be classified as a Class III medical device by the U.S. Food and Drug Administration.

Pre-Clinical Studies

We performed laboratory and animal testing prior to submitting an application for CE Mark approval for our MGuardTM Coronary with bio-stable mesh. We also performed all CE Mark required mechanical testing of the stent. We conducted pre-clinical animal trials at Harvard and MIT Biomedical Engineering Center BSET lab in July 2006 and August 2007. In these animal trials, on average, the performance of the MGuardTM Coronary with bio-stable mesh was comparable with the performance of control bare-metal stents. Analysis also indicated that in these animal trials the mesh produced levels of inflammation comparable with those levels produced by standard bare-metal stents. No human trials were conducted as part of these pre-clinical trials.

The table below describes our completed and planned pre-clinical trials. The use of the term “To be determined” in the table below with regard to milestone dates in our pre-clinical studies indicates that we have not yet decided when to schedule such milestones.

Product	Stent Platform	Approval Requirement	Start of Study	End of Study
MGuardTM Coronary	Bare-Metal Stent Plus Bio-Stable Mesh	CE Mark (European Union + Rest of World)	Q4-2006	Q3-2007
	Drug-Eluting Mesh (Bare-Metal Stent Plus	CE Mark (European Union + Rest of World)	To be determined	To be determined
	Drug-Eluting Mesh)	FDA (U.S.)	To be determined	To be determined
	Cobalt-Chromium Stent Plus Bio-Stable Mesh	FDA	Q2-2011	Q2-2012
MGuardTM Peripheral/Carotid	Self Expending System Plus Mesh	CE Mark (European Union + Rest of World)	To be determined	To be determined
MGuardTM Carotid		FDA (U.S.)		

Self Expending System Plus Mesh	Peripheral information on animals can be used

With respect to the preclinical studies for MGuardTM Coronary, the drug-eluting mesh trials have been indefinitely suspended due to our determination to focus our time and resources on other trials at this time and the start of the cobalt-chromium stent plus bio-stable mesh trial was delayed from our previously announced target due to the delay of the U.S. Food and Drug Administration approval process for MGuard™ Coronary Plus Bio-Stable Mesh.

With respect to the preclinical studies for MGuard Peripheral/Carotid, the start of study of the Self Expending System Plus Mesh trial has been delayed from our previously announced target due to a delay in our receipt of anticipated funding.

Clinical Trials

The table below describes our completed and planned clinical trials. The use of the term "To be determined" in the table below with regard to milestone dates in our clinical trials indicates that we have not yet decided when to schedule such milestones. All milestone dates set forth in the table below are our best estimates based upon the current status of each clinical trial.

						Study Status		
Product	Stent Platform	Clinical Trial Sites	Follow-up Requirement	Objective	No. of Patients	Start	End Enrollment	End of Study
MGuardTM Coronary	Bare-Metal Stent Plus Bio-Stable Mesh	Germany – two sites	12 months	Study to evaluate safety and performance of MGuardTM system	41	Q4-2006	Q4- 2007	Q2-2008
		Brazil – one site	12 months		30	Q4-2007	Q1-2008	Q2-2009
		Poland – four sites	6 months		60	Q2-2008	Q3-2008	Q2-2009
		International MGuardTM Observational Study - worldwide - 50 sites	12 months		1,000	Q1-2008	Q4-2013	Q4-2013
		Israeli MGuardTM Observational Study - Israel - 8 sites	6 months		100	Q2-2008	Q3-2011	Q3-2012
		Master randomized control trial - 7 countries, 50 centers in South America, Europe and Israel	12 months		430	Q2-2011	Q2-2012	Q2-2013
		Brazil – 25 sites	12 months		500	Q3-2010	To be determined	To be determined
		FDA Study - 40 sites, U.S. and out of U.S.	12 months	Pilot study to evaluate safety and performance of	880	Q3-2012 - Q4-2012	Q2-2014	Q4-2015

			MGuardTM system for FDA approval				
	South America and Europe – 10 sites	8-12 months	Pilot study to evaluate safety and	500	To be determined	To be determined	To be determined
Drug-Eluting Stent (Bare-Metal Stent + Drug Eluting Mesh)	U.S. – 50 sites	12 months	performance of MGuardTM system for FDA and CE Mark approval	2,000	To be determined	To be determined	To be determined
	Rest of World as a registry study	8-12 months	Evaluation of safety and efficacy for specific indications	400	To be determined	To be determined	To be determined

Product	Stent Platform	Clinical Trial Sites	Follow-up Requirement	Objective	No. of Patients	Study Status		
						Start	End Enrollment	End of Study
MGuardTM Peripheral	Self Expanding System + Mesh	South America and Europe – four sites	12 months	Pilot study to evaluate safety and performance of MGuardTM system for CE Mark approval	50	To be determined	To be determined	To be determined
		South America and Europe – six sites	6 months		150	To be determined	To be determined	To be determined
MGuardTM Carotid	Self Expanding System + Mesh	Rest of World as a registry study	6 months	Evaluation of safety and efficacy for specific indications post-marketing	100	To be determined	To be determined	To be determined

Each of the patient numbers and study dates set forth in the tables above are management's best estimate of the timing and scope of each referenced trial. Actual dates and patient numbers may vary depending on a number of factors, including, without limitation, feedback from reviewing regulatory authorities, unanticipated delays by us, regulatory authorities or third party contractors, actual funding for the trials at the time of trial initiation and initial trial results.

With respect to the MGuardTM Coronary clinical trial for the Master randomized control trial, the start and end enrollment dates have been delayed from our previously announced target by a fiscal quarter and the end of study date has been delayed from our previously announced target by two fiscal quarters due to delays in the necessary approvals of the trial by local ethical committees in certain of the participant countries.

The MGuardTM Coronary clinical trials for the drug-eluting stent have been delayed from our previously announced target due to a delay in our receipt of anticipated funding.

With respect to the MGuardTM Peripheral clinical trial for the self expanding system + mesh, the start date has been delayed from our previously announced start date due to a delay in our receipt of anticipated funding.

With respect to the MGuardTM Carotid clinical trial for the self expanding system + mesh, the number of patients has been decreased due to feedback from the clinical trial leaders that a smaller patient population would be sufficient for this clinical trial.

Completed Clinical Trials for MGuardTM Coronary Bare-Metal Stent Plus Bio-Stable Mesh

As shown in the table above, we have completed five clinical trials with respect to our MGuardTM Coronary with bio-stable mesh. Our first study, conducted at two centers in Germany, included 41 patients with either saphenous vein graft coronary interventions or native coronary lesions treatable by a stenting procedure (blockages where no bypass procedure was performed). The MGuardTM Coronary rate of device success, meaning the stent was successfully deployed in the target lesion, was 100% and the rate of procedural success, meaning there were no major adverse cardiac events prior to hospital discharge, was 95.1%. At six months, only one patient (2.5% of participants) had major myocardial infarction (QWMI) and 19.5% of participants had target vessel revascularization (an invasive procedure required due to a stenosis in the same vessel treated in the study). This data supports MGuardTM's safety in the treatment of vein grafts and native coronary legions.

Our 2007 study in Brazil included 30 patients who were candidates for a percutaneous coronary intervention (angioplasty) due to narrowing of a native coronary artery or a bypass graft. In all patients, the stent was successfully deployed with perfect blood flow parameters (the blood flow parameter is a measurement of how fast the blood flows in the arteries and the micro circulation system in the heart). There were no major cardiac events at the time of the follow-up 30 days after the deployment of the stents.

The study in Poland included 60 patients with acute ST-segment elevation myocardial infarction (the most severe form of a heart attack, referred to as "STEMI"). The purpose of the study was to evaluate the clinical performance of MGuard™ Coronary with bio-stable mesh when used in STEMI patients where percutaneous coronary intervention is the primary line of therapy. Perfect blood flow in the artery was achieved in 90% of patients, perfect blood flow into the heart muscle was achieved in 73% of patients and complete restoration of electrocardiogram normality was achieved in 61% of patients. The total major adverse cardiac events rate during the six-month period following the deployment of the stents was 0% and after a three-year period was 10.5%.

Ongoing Clinical Trials for MGuard™ Coronary Bare-Metal Stent Plus Bio-Stable Mesh

Our ongoing observation study in Europe is an open registry launched in the first fiscal quarter of 2009. This registry is expected to enroll up to 1,000 patients and is aimed at evaluating the performance of MGuard™ Coronary with bio-stable mesh in a "real world" population. To date, the primary countries to join are Austria, Czech Republic and Hungary. The primary endpoint that this registry will evaluate is the occurrence of major adverse cardiac events at six months following deployment of the stent, and the clinical follow-up will continue for a period of up to one year per patient. As of May 30, 2012, 545 patients of the prospective 1,000 have been enrolled in 28 sites.

Our ongoing observational study in Israel is an open registry launched in the fourth fiscal quarter of 2009. This registry is expected to enroll up to 100 patients. The purpose of this study is to support local Israeli regulatory approval. The primary endpoint that this registry will evaluate is the occurrence of major adverse cardiac events at 30 days following deployment of the stent, and the clinical follow-up will be conducted at six months following deployment of the stent. As May 30, 2012, 86 patients of the prospective 100 have been enrolled.

In the third fiscal quarter of 2010, we launched a Brazilian registry to run in 25 Brazilian sites and enroll 500 patients. The primary endpoint that this registry will evaluate is the occurrence of major adverse cardiac events at six months following the deployment of the stent, and the clinical follow-up will continue for a period of up to one year per patient. As of May 30, 2012, 20 patients of the prospective 500 have been enrolled.

Comparison of Clinical Trial Results to Date with Results Achieved Using Bare Metal or Drug-Eluting Stents in the STEMI population

We conducted a meta-analysis of data from four clinical trials in which MGuardTM was used:

- The MAGICAL study, a single arm study in which 60 acute ST-segment elevation myocardial infarction (the most severe form of a heart attack, referred to as STEMI) patients with less than 12 hours symptom onset were enrolled, as reported in "Mesh Covered Stent in ST-segment Elevation Myocardial Infarction" in EuroIntervention, 2010;

- the PISCIONE study, a single arm study in which 100 STEMI patients were enrolled, as reported in "Multicentre Experience with MGuard Net Protective Stent in ST-elevation Myocardial Infarction: Safety, Feasibility, and Impact on Myocardial Reperfusion" in Catheter Cardiovasc Interv, 2009;

- the iMOS study, a Registry on MGuard use in the "real-world" population, from a study whose data was not published; and

- the Jain study, which looks at a small group of 51 STEMI patients, as reported in "Prevention of Thrombus Embolization during Primary Percutaneous Intervention Using a Novel Mesh Covered Stent" in Catheter Cardiovasc Interv, 2009.

Our meta-analysis included data from the following trials:

- The CADILLAC (Controlled Abciximab and Device Investigation to Lower Late Angioplasty Complications) study, which found that primary stent implantation is a preferred strategy for the treatment of acute myocardial infarction, as reported in "A Prospective, Multicenter, International Randomized Trial Comparing Four Reperfusion Strategies in Acute Myocardial Infarction: Principal Report of the Controlled Abciximab and Device Investigation to Lower Late Angioplasty Complications (CADILLAC)" Trial in Journal of American College of Cardiology, 2001;

- The EXPORT trial which was a randomized open-label study whose primary endpoint was to evaluate flow improvement in AMI patients using either conventional stenting or aspiration followed by stenting, as reported in "Systematic Primary Aspiration in Acute Myocardial Percutaneous Intervention: A Multicentre Randomised Controlled Trial of the Export Aspiration Catheter" in EuroIntervention, 2008;

- The EXPIRA trial which was a single-center study aimed to explore pre-treatment with manual thrombectomy as compared to conventional stenting, as reported in "Thrombus Aspiration During Primary Percutaneous Coronary Intervention Improves Myocardial Reperfusion and Reduces Infarct Size: The EXPIRA (Thrombectomy with Export Catheter in Infarct-related Artery During Primary Percutaneous Coronary Intervention) Prospective, Randomized Trial" in Journal of American College of Cardiology, 2009;

- The REMEDIA trial, whose objective was to assess the safety and efficacy of the EXPORT catheter for thrombus aspiration in STEMI patients, as reported in "Manual Thrombus-Aspiration Improves Myocardial Reperfusion: The Randomized Evaluation of the Effect of Mechanical Reduction of Distal Embolization by Thrombus-Aspiration in Primary and Rescue Angioplasty (REMEDIA) Trial" in Journal of American College of Cardiology, 2005;

- The Horizons-AMI (Harmonizing Outcomes with RevascularIZatiON and Stents in Acute MI), which is the largest randomized trial which compared DES to BMS in MI patients, as reported in "Paclitaxel-Eluting Stents Versus Bare-Metal Stents in Acute Myocardial Infarction" in New England Journal of Medicine, 2009; and

- The TAPAS Trial which showed that thrombus aspiration before stenting benefits MI patients, as reported in "Thrombus Aspiration During Primary Percutaneous Coronary Intervention" in New England Journal of Medicine, 2009.

The meta analysis of MGuardTM outcomes in STEMI population show comparable rates of thrombolysis in myocardial infarction (TIMI) 3 flow with no significant difference of the historical control as compared to MGuardTM(88.5% and 91.7%, respectively), while the rates of myocardial blush grade score 3 (37.3% for the historical control and 81.6% for MGuardTM) and ST segment resolution>70% (53.6% for the historical control and 79.1% for MGuardTM) are statistically significantly better with the MGuardTM. MGuardTM also appeared to be consistently superior at the 30 days major adverse cardiac event (8.4% for the historical control and 2.4% for MGuardTM) and 1 year major adverse cardiac event (13.3% for the historical control and 5.9% for MGuardTM) endpoints. The data appears in the following tables.

	NAME OF STUDY				
	MAGICAL	PISCIONE	iMOS	Jain	Average
Number of Patients	60	100	203	51	414 (Total)
Thrombolysis in myocardial infarction 0-1,%	0	0	1.2	0	0.6
Thrombolysis in myocardial infarction 3,%	90	85	93.5	100	91.7
Myocardial blush grade 0-1,%	3.3	0	--	--	1.2
Myocardial blush grade 3,%	73	90	80	--	81.6
ST segment resolution>70%,%	61	90	--	--	79.1
ST segment resolution>50%,%	88	--	85.4	96	87.6
30 day major adverse cardiac event,%	0	2.2	3.2	--	2.4
6 month major adverse cardiac events,%	0	4.5	6.0	--	4.6
1 year major adverse cardiac events,%	--	5.6	6.0	6.0	5.9
1 year target vessel revascularization		2.3	2.3	6.0	2.8
Acute Binary Resteonosis 6M,%	--	--	19.0*	--	19.0

	THREE YEAR FOLLOW UP STUDIES NAME OF STUDY				
	MAGICAL	PISCIONE	iMOS	Jain	Average
Number of Patients	57 out of 6089		--	--	--
Cardiac death at 3Y	7%	2.2%	--	--	--
Non Cardiac death at 3Y	1.8%	6.8%	--	--	--
Re-MI at 3Y	0%	7.9%	--	--	--
TLR at 3Y	1.8%	Not Reported	--	--	--
TVR at 3Y Include TLR	3.6%	4.5%			
Stroke	1.8%	Not Reported	--	--	--
Stent thrombosis Definite / Probable	0%	2.2%	--	--	--
MACE (Cardiac death, RE-MI, TLR)	8.8%	10.1%	--	--	--
MACCE (All death, target vessel MI, TVR, Stroke)	10.5%	Not Reported	--	--	--

Trial	CADILLAC	Horizons-AMI	Horizons-AMI	TAPAS	TAPAS	EXPORT	EXPORT	EXPIRA	EXPIRA	REM
Group	Stent + Abciximab	BMS	DES	Thrombus aspiration	control	control	TA	control	Thrombus aspiration	Thro aspir
Number of Patients	524	749	2257	535	536	129	120	87	88	5
Thrombolysis in myocardial infarction 0-1,%	--	--	--	--	--	3.9	2.4	1.1	0	-
Thrombolysis in myocardial infarction 3,%	96.9	87.6	89.8	86	82.5	76.9	82	--	--	-
Myocardial blush grade 0-1,%	48.7	--	--	17.1	26.3	31.6	27.6	40.2	11.4	3
Myocardial blush grade 3,%	17.4	--	--	45.7	32.2	25.4	35.8	--	--	-
ST segment resolution>70%,%	62	--	--	56.6	44.2	--	--	39.1	63.6	5
ST segment resolution>50%,%	--	--	--	--	--	71.9	85	--	--	-
30 day major adverse cardiac event,%	4.4	--	--	6.8	9.4	--	--	--	--	1
6 month major adverse cardiac events,%	10.2	--	--	--	--	--	--	--	--	-
1 year major adverse cardiac events,%	--	13.1	10.9	16.6	20.3	--	--	--	--	-
Acute Binary Resteonosis 6 month,%	20.8	--	--	--	--	--	--	--	--	-
1 year target vessel revascularization		7.4	4.6	12.9	11.2					
Acute Binary Resteonosis 1 year,%	--	21	8.3	--	--	--	--	--	--	-

Future Clinical Trials for MGuardTM Coronary

We anticipate that additional studies will be conducted to meet registration requirements in key countries, particularly the U.S. We have currently budgeted $12 million for the U.S. Food and Drug Administration trial. We expect that post-marketing trials will be conducted to further evaluate the safety and efficacy of the MGuard™ Coronary with bio-stable mesh in specific indications. These trials will be designed to facilitate market acceptance and expand the use of the product.

In the second fiscal quarter of 2011, we began the MGuard for Acute ST Elevation Reperfusion Trial (MASTER Trial), a prospective, randomized study in Europe, South America and Israel to compare the MGuard™ stent with commercially-approved bare-metal and drug-eluting stents in achieving better myocardial reperfusion (the restoration of blood flow) in primary angioplasty for the treatment of acute STEMI. On May 23, 2012, we completed enrollment for this trial at 432 patients, 50% of whom will be treated with an MGuard™ stent and 50% of whom will be treated with a commercially-approved bare-metal or drug-eluting stent. The primary endpoint of this study is the occurrence of the restoration of normal electrocardiogram reading. We have budgeted $2 million for this trial, which we believe will, if successful, help promote market acceptance of the product and expand its usage.

We also plan to conduct a large clinical study for U.S. Food and Drug Administration approval in the U.S. We expect that this study will be a prospective, multicenter, randomized clinical trial. Its primary objective will be to compare the safety and the effectiveness of the MGuard™ stent in the treatment of de novo stenotic lesions in coronary arteries in patients undergoing primary revascularization (a surgical procedure for the provision of a new, additional, or augmented blood supply to the heart) due to acute myocardial infarction with the MultiLink Vision stent system from Abbott Vascular. We expect total enrollment of approximately 880 subjects, at up to 40 sites throughout the U.S. and Europe. The combined primary endpoint of this study will be the occurrence of Blush Score of 3, which would indicate that blood supply to the heart muscle is optimal following the procedure, and the occurrence of target vessel failure (a composite endpoint of cardiac death, reoccurrence of a heart attack and the need for a future invasive procedure to correct narrowing of the coronary artery). This study is expected to start in 2012, and the enrollment phase is expected to last 18 months. We expect that subjects will be followed for 12 months with assessments at 30 days, six months and 12 months. This plan is tentative, and is subject to change to conform with U.S. Food and Drug Administration regulations and requirements.

In other countries outside of the U.S., we believe that we generally will be able to rely upon the CE Mark approval of the product, as well as the results of the U.S. Food and Drug Administration trial and MASTER Trial in order to obtain local approvals.

Planned Trials for future MGuardTM Peripheral and Carotid Products

As shown in the table at the beginning of this section, we also plan to conduct clinical trials for our additional products in development in order to obtain approval for their use. We anticipate that local distributors in the countries in which such trials will take place will support many of these studies.

Growth Strategy

Our primary business objective is to utilize our proprietary technology to become the industry standard for treatment of acute coronary syndromes 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.

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- Successfully commercialize MGuardTM Coronary with bio-stable mesh. We have begun commercialization of MGuardTM Coronary with a bio-stable mesh in Europe, Asia and Latin America through our distributor network and we are aggressively pursuing additional registrations and contracts in other countries such as Russia, Canada, South Korea, Belgium, the Netherlands and certain smaller countries in Latin America. By the time we begin marketing this product in the U.S., we expect to have introduced the MGuardTM technology to clinics and interventional cardiologists around the world, and to have fostered brand name recognition and widespread adoption of MGuardTM Coronary. We plan to accomplish this by participating in national and international conferences, conducting and sponsoring clinical trials, publishing articles in scientific journals, holding local training sessions and conducting electronic media campaigns.

- Successfully develop the next generation of MGuardTM stents. While we market our MGuardTMCoronary with bio-stable mesh, we intend to develop the MGuardTM Coronary with a drug-eluting mesh. We are also working on our MGuardTM stents for peripheral and carotid, for which we expect to have CE Mark approval by the fourth quarter of 2012. In addition, we released our cobalt-chromium version of MGuardTM, MGuard Prime™, in 2010, which we anticipate will replace MGuardTM over the next couple of years.

- Continue to leverage MGuardTM 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 have secured intellectual property using our unique mesh technology in the areas of brain aneurism, treating bifurcated blood vessels and a new concept of distal protective devices. We believe these areas have a large growth potential given, in our view, that present solutions are far from satisfactory, and there is a significant demand for better patient care. We believe that our patents can be put into practice and that they will drive our growth at a later stage.

- Work with world-renowned physicians to build awareness and brand recognition of MGuardTM portfolio of products. We intend to work closely with leading cardiologists to evaluate and ensure the efficacy and safety of our products. We intend that some of these prominent physicians will serve on our Scientific Advisory Board, which is our advisory committee that advises our board of directors, and run clinical trials with the MGuardTM Coronary stent. We believe these individuals, once convinced of the MGuardTM Coronary stent's appeal, will be invaluable assets in facilitating the widespread adoption of the stent. In addition, we plan to look to these cardiologists to generate and publish scientific data on the use of our products, and to present their findings at various conferences they attend. Dr. Gregg W. Stone, director of Cardiovascular Research and Education at the Center for Interventional Vascular Therapy of New York Presbyterian Hospital/Columbia University Medical Center and the co-director of Medical Research and Education at The Cardiovascular Research Foundation is the study chairman for the MASTER Trial. Dr. Donald Cutlip, Executive Director of Clinical Investigation at the Harvard Clinical Research

Institute, will provide scientific leadership of the U.S. Food and Drug Administration trials. On October 4, 2011, InspireMD Ltd., our wholly-owned subsidiary, entered into a clinical trial services agreement with Harvard Clinical Research Institute, Inc., pursuant to which Harvard Clinical Research Institute, Inc. will conduct a study entitled "MGuard Stent System Clinical Trial in Patients with Acute Myocardial Infarction" on our behalf. We will pay Harvard Clinical Research Institute, Inc. an estimated fee of approximately $12 million for conducting the study, subject to adjustment dependent upon changes in the scope and nature of the study, as well as other costs to be determined by the parties.

- Continue to protect and expand our portfolio of patents. Our patents and their protection are critical to our success. We have filed nine separate patents for our MGuardTM technology in Canada, China, Europe, Israel, India, South Africa and the U.S. We believe these patents cover all of our existing products, and can be useful for future technology. We intend to continue patenting new technology as it is developed, and to actively pursue any infringement upon our patents. On October 25, 2011, one of our patent applications, U.S. patent application 11/582,354, was issued as U.S. Patent 8,043,323.

- Develop strategic partnerships. We intend to partner with medical device, biotechnology and pharmaceutical companies to assist in the development and commercialization of our proprietary technology. Although we have not yet done so, we plan to partner with a company in the U.S. to guide products through U.S. Food and Drug Administration approval and to support the sale of MGuardTM stents in the U.S.

As noted above, we previously filed patents for our MGuardTM technology in China, as part of our intended growth strategy. However, upon further consideration of the cost and resources required to achieve patent protection in China, we elected to prioritize our pursuit of growth opportunities in other countries and, as such, have ceased our growth efforts in China for the current time period. We intend to reevaluate our strategy towards commercialization of our MGuardTM technology in China in the future.

Competition

The stent industry is highly competitive. The bare-metal stent and the drug-eluting stent markets in the U.S. and Europe are dominated by Abbott Laboratories, Boston Scientific Corporation, Johnson & Johnson and Medtronic, Inc. Due to ongoing consolidation in the industry, there are high barriers to entry for small manufacturers in both the European and the U.S. markets. However, we believe that the European market is somewhat more fragmented, and small competitors appear able to gain market share with greater ease.

In the future, we believe that physicians will look to next-generation stent technology to compete with currently existing therapies. These new technologies will likely include bio-absorbable stents, stents that are customizable for different lesion lengths, stents that focus on treating bifurcated lesions, and stents with superior polymer and drug coatings. Some of the companies developing new stents are The Sorin Group, Xtent, Inc., Cinvention AG, OrbusNeich, Biotronik SE & Co. KG, Svelte Medical Systems, Inc., Reva Inc. and Stentys SA, among others. To address current issues with drug-eluting stents, The Sorin Group and Cinvention AG have developed stents that do not require a polymer coating for drug delivery, thereby expanding the types of drugs that can be used on their respective stents. OrbusNeich has addressed the problem differently, developing a stent coated with an antibody designed to eliminate the need for any drug at all. Xtent, Inc. has been concentrating on a stent that can be customized to fit different sized lesions, so as to eliminate the need for multiple stents in a single procedure. Biotronik SE & Co. KG is currently developing bio-absorbable stent technologies, and Abbott Laboratories is currently developing a bio-absorbable drug-eluting stent. These are just a few of the many companies working to improve stenting procedures in the future as the portfolio of available stent technologies rapidly increases. As the market moves towards next-generation stenting technologies, minimally invasive procedures should become more effective, driving the growth of the market in the future. We plan to continue our research and development efforts in order to be at the forefront of the acute myocardial infarction solutions.

According to the January 3, 2011 2011 MEDTECH OUTLOOK produced by the BMO (Bank of Montreal) Investment Banking Group, the worldwide stent market is dominated by four major players, with a combined total market share of approximately 96%. Within the bare metal stent market and drug-eluting stent market, the top four companies have approximately 92% and 98% of the market share, respectively. These four companies are Abbott Laboratories, Boston Scientific Corporation, Johnson & Johnson and Medtronic, Inc. To date our sales are not significant enough to register in market share. As such, one of the challenges we face to the further growth of MGuard™ 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.

In addition to the challenges from our competitors, we face challenges related specifically to our products. None of our products are currently approved by the U.S. Food and Drug Administration. Clinical trials necessary to support a pre-market approval application to the U.S. Food and Drug Administration for our MGuard™ stent will be expensive and will require the enrollment of a large number of patients, and suitable patients may be difficult to identify and recruit, which may cause a delay in the development and commercialization of our product candidates. Furthermore,

our rights to our intellectual property with respect to our products could be challenged. Based on the prolific litigation that has occurred in the stent industry and the fact that we may pose a competitive threat to some large and well-capitalized companies that own or control patents relating to stents and their use, manufacture and delivery, we believe that it is possible that one or more third parties will assert a patent infringement claim against the manufacture, use or sale of our MGuard™ stent based on one or more of these patents.

We note that an additional challenge facing our products comes from drug-eluting stents. Over the last decade, there has been an increasing tendency to use drug-eluting stents in percutaneous coronary intervention (PCI), with a usage rate of drug-eluting stents in PCI approaching 70-80% in some countries, even though drug-eluting stents do not address thrombus management in acute myocardial infarction. A recent HORIZONS-AMI trial that compared drug-eluting stents to bare-metal stents in STEMI patients failed to show any benefit of drug-eluting stents as compared to bare-metal stents with regard to safety (death, re-infarction, stroke, or stent thrombosis), but showed the 1 year target vessel revascularization (TLR) rate for drug-eluting stent patients was only 4.6%, as compared to 7.4% for patients with bare-metal stents. However, based on data from over 350 patients across three clinical trials, the TLR rate for MGuardTM was 2.8%. (This data is comprised of: (i) a TLR rate of 2.3% for a 100-patient study, as reported in “Multicentre Experience with MGuard Net Protective Stent in ST-elevation Myocardial Infarction: Safety, Feasibility, and Impact on Myocardial Reperfusion” in Catheter Cardiovasc Interv, 2009; (ii) a TLR rate of 2.3% for a sub-group of 203 STEMI patients from the International MGuardTM Observational Study; and (iii) a TLR rate of 6.0% for a group of 51 heart attack patients, as reported in “Prevention of Thrombus Embolization during Primary Percutaneous Intervention Using a Novel Mesh Covered Stent” in Catheter Cardiovasc Interv, 2009).

Another challenge facing the MGuardTM products is that placing the stent at the entrance to large side branches, known as jailing large side branches, is not recommended with the MGuardTM Coronary stent, because there is risk of thrombosis. Jailing requires the need to cross the stent with guidewire and to create an opening with the balloon to allow proper flow, which can be achieved with lower risk by using other bare-metal stents.

Research and Development Expenses

During each of 2011, 2010 and 2009, we spent approximately $2.5 million, $1.3 million and $1.3 million, respectively, on research and development.

Sales and Marketing

Sales and Marketing

In October 2007, MGuardTM Coronary with a bio-stable mesh received CE Mark approval in the European Union, and shortly thereafter was commercially launched in Europe through local distributors. We are also in negotiations with additional distributors in Europe, Asia and Latin America and are currently selling our MGuardTM Coronary with a bio-stable mesh in more than 30 countries.

Until U.S. Food and Drug Administration approval of our MGuardTM Coronary with a bio-stable mesh, which we are targeting for 2015, we plan to focus our marketing efforts primarily on Europe, Asia and Latin America. Within Europe, we have focused on markets with established healthcare reimbursement from local governments such as Italy, Germany, France, Greece, Austria, Hungary, Poland, Slovenia, Czech Republic and Slovakia.

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. As sales volume increases, we plan to open regional offices and manage sales activities more closely in each of our defined geographical regions, and to provide marketing support to local and regional distributors in each area.

Product Positioning

The MGuardTM Coronary has initially penetrated the market by entering market segments with indications that present high risks of embolic dislodgement, notably acute myocardial infarction and saphenous vein graft coronary interventions. The market penetration of the MGuardTM Coronary in 2011 was minimal, with total sales in the twelve months ended December 31, 2011 of approximately $6 million representing less than 1% of the total sales of the acute myocardial infarction solutions market.

When performing stenting procedures in patients with acute coronary symptoms, interventional cardiologists face a difficult dilemma in choosing between bare-metal stents, which have a high rate of restenosis, and drug-eluting stents, which have a high rate of late stent thrombosis, require administration of anti-platelet drugs for at least one year post procedure and are more costly than bare-metal stents. We are marketing our platform technology, MGuardTM, as a superior and cost effective solution to these currently unmet needs of interventional cardiologists. We believe our MGuardTM technology is clinically superior to bare-metal stents because it provides embolic protection during and post-procedure. We believe our MGuardTM technology is clinically superior to drug-eluting stents, due to its lower stent thrombosis rate and protection from embolic showers during and post-procedure.

In addition to the advantages of the MGuardTM technology that we believe to exist, the MGuardTM technology maintains the deliverability, crossing profile, and dilatation pressure of a conventional stent, and interventional cardiologists do not have to undergo extensive training before utilizing the product.

Insurance Reimbursement

In most countries, a significant portion of a patient's medical expenses is covered by third-party payors. Third-party payors can include both government funded insurance programs and private insurance programs. While each payor develops and maintains its own coverage and reimbursement policies, the vast majority of payors have similarly established policies. All of the MGuardTM 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 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 MGuardTM 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.

In the U.S., once the MGuardTM Coronary with bio-stable mesh is approved by the U.S. Food and Drug Administration, it will be eligible for reimbursement from the Centers for Medicare and Medicaid Services, which serve as a benchmark for all reimbursement codes. While there is no guarantee these codes will not change over time, we believe that the MGuardTM will be eligible for reimbursement through both governmental healthcare agencies and most private insurance agencies in the U.S. once it is approved by the U.S. Food and Drug Administration.

Intellectual Property

Patents

We have filed nine separate patents for our MGuardTM technology in Canada, China, Europe, Israel, India, South Africa and the U.S. for an aggregate of 35 filed patents. These patents 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, and stent apparatuses for treatment of body lumens, among others. In lay terms, these patents generally cover two parts of our products: the mesh sleeve, with and without a drug, and the delivery mechanism of the stent. On October 25, 2011, one of our patent applications, U.S. patent application 11/582,354, was issued as U.S. Patent 8,043,323. None of the other patents have been granted to date. We believe these patents, once issued, will cover all of our existing products and be useful for future technology. We also believe that the patents we have filed, in particular those covering the use of a knitted micron-level mesh sleeve over a stent for various indications, would create a significant barrier for another company seeking to use similar technology.

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To date, we are not aware of other companies that have patent rights to a micron fiber, releasable knitted fiber sleeve over a stent. However, larger, better funded competitors own patents relating to the use of drugs to treat restenosis, stent architecture, catheters to deliver stents, and stent manufacturing and coating processes as well as general delivery mechanism patents like rapid exchange. Stent manufacturers have historically engaged in significant litigation, and we could be subject to claims of infringement of intellectual property from one or more competitors. Although we believe that any such claims would be un-founded, such litigation would divert attention and resources away from the development of MGuardTM stents. Other manufacturers may also challenge the intellectual property that we own, or may own in the future. We may be forced into litigation to uphold the validity of the claims in our patent portfolio, an uncertain and costly process.

Trademarks

We use the InspireMD and MGuard trademarks. We have registered these trademarks in Europe. The trademarks are renewable indefinitely, so long as we continue to use the mark in Europe and make the appropriate filings when required.

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 U.S. 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 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 and pass an initial and annual facilities audit inspections to ISO 13485 standards by an European Union inspection agency. 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 Union inspectors.

As noted below, we currently have distribution agreements for our products with distributors in the following countries: Italy, Germany, Austria, Czech Republic, Slovakia, France, Slovenia, Greece, Cyprus, Portugal, Spain, Poland, Hungary, Estonia, Lithuania, Ukraine, United Kingdom, Holland, Russia, Latvia, Brazil, Chile, Costa Rica, Mexico, Argentina, Colombia, India, Sri Lanka, South Africa, Pakistan and Israel. We are subject to governmental regulation in each of these countries and we are not permitted to sell all of our products in each of these countries. 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 each of the above-listed countries that is not a member of the European Union accepts the CE Mark as its primary requirement for marketing approval, each such country requires additional regulatory requirements for final marketing approval for MGuard Prime™. Additionally, in Canada, we are required to pass annual facilities audit inspections performed by Canadian inspectors. Furthermore, we are currently targeting additional countries in Europe, Asia, and Latin America. We believe that each country that we are targeting also accepts the CE Mark as its primary requirement for marketing approval. We intend that the results of the MASTER Trial will satisfy any additional governmental regulatory requirements in each of the countries where we currently distribute our products and in any countries that we are currently targeting for expansion. 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, 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.

MGuard Prime™ received CE Mark approval in the European Union in October 2010 and marketing approval in Israel in September 2011. We are currently seeking marketing approval for MGuard Prime™ in Brazil, Malaysia, Mexico, Russia, Serbia, Singapore, Argentina, India, Sri Lanka and Pakistan. We are focusing 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. We have determined that other countries with better organized and capitalized healthcare systems may not present us the same opportunities for growth due to the lack of use of stents in treatment of cardiac episodes and less advantageous healthcare reimbursement policies, among other reasons. While each of the countries in which we are seeking marketing approval for MGuard Prime™ accepts the CE Mark as its primary requirement for marketing approval and does not require any additional tests, each country does require some additional regulatory requirements for marketing approval. More specifically, for the approval process in Malaysia, we need to submit an application for regulatory approval, which we anticipate will be granted in three months. For the approval process in Mexico, we need to submit an application for regulatory approval, which we anticipate will be granted in twelve months. For the approval process in Serbia, we need to submit an application for regulatory approval, which we anticipate will be granted in twelve months. For the approval process in Singapore, we need to submit an application for regulatory approval, which we anticipate will be granted in six months. For the approval process in Argentina, we need to submit an application for regulatory approval, which we anticipate will be granted in approximately twelve months. For the approval process in India, we need to submit an application for regulatory approval, which we anticipate will be granted in approximately twelve months. For the approval process in Sri Lanka, we need to submit an application for regulatory approval, which we anticipate will be granted in six to twelve months. For the approval process in Pakistan, we need to submit an application for regulatory approval, which we anticipate will be granted in six to twelve months. In Israel, where we received marketing approval in September 2011, we will be subject to annual renewal of our marketing approval. Regulators in Israel may request additional documentation or other materials and results of studies from medical device manufacturers such as us as part of the renewal process. Generally, however, the annual renewal of marketing approval is given automatically, barring a material change in circumstances or results.

For the approval process in Brazil, we must comply with Brazilian Good Manufacturing Practice, or GMP, quality system requirements. ANVISA, Brazil's regulatory agency, must conduct an inspection of MGuard Prime™ to determine compliance with Brazil GMP regulations. Upon successful completion of an audit, ANVISA will then issue the GMP certificate necessary to register a medical device in Brazil. Once we receive the necessary GMP certificate, we can apply for regulatory approval. We anticipate that the approval process in Brazil will take between one and two years.

For the approval process in Russia, we must first provide test samples of MGuard Prime™ and then conduct government-authorized testing. We must then submit the test results together with our application for regulatory approval to the Russian regulatory authority. We anticipate that the approval process in Russia will take between five to twelve months.

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

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

Countries	MGuard™ Approval	MGuard™ Sales	MGuard Prime™ Approval	MGuard Prime™ Sales	Countries	MGuard™ Approval	MGuard™ Sales	MGuard Prime™ Approval	MGuard Prime™ Sales
Argentina	Y	Y	N	N	Italy	Y	Y	Y	Y
Austria	Y	Y	Y	Y	Latvia	Y	Y	Y	Y
Brazil	Y	Y	N	N	Lithuania	Y	Y	Y	N

Chile	Y	Y	N	N	Malaysia	N	N	N	N
Colombia	Y	Y	N	N	Mexico	Y	Y	N	N
Costa Rica	Y	Y	N	N	Pakistan	Y	Y	N	N
Cyprus	Y	Y	Y	N	Poland	Y	Y	Y	Y
Czech Rep	Y	Y	Y	N	Portugal	Y	Y	Y	N
UK	Y	N	Y	N	Russia	Y	Y	N	N
Estonia	Y	Y	Y	Y	Serbia	N	N	N	N
France	Y	Y	Y	Y	Singapore	N	Y1	N	N
Germany	Y	Y	Y	Y	Slovakia	Y	Y	Y	N
Greece	Y	Y	Y	Y	Slovenia	Y	Y	Y	N
Holland (Netherlands)	Y	Y	Y	Y	South Africa	Y	Y	N	N
Hungary	Y	Y	Y	Y	Spain	Y	Y	Y	Y
India	Y	Y	N	N	Sri Lanka	Y	Y	N	N
Israel	Y	Y	Y	Y	Ukraine	Y	Y	N	N

1 At time the sales were made, we satisfied the regulatory requirements in Singapore. The regulatory requirements in Singapore were subsequently changed and we no longer meet these requirements.

In the U.S., 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 MGuardTM Coronary plus with bio-stable mesh product 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 requires the U.S. Food and Drug Administration to determine that the device is safe and effective for the purposes intended.

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 Canada, Southeast Asia, India and Latin America. In 2011, forty six percent (46%) of our revenue was generated in Europe, eighteen percent (18%) of our revenue was generated in Asia, sixteen percent (16%) of our revenue was generated in South America, twelve percent (12%) of our revenue was generated in Israel with the remaining eight percent (8%) of our revenue generated in the rest of the world.

Our major customers in the twelve months ended December 31, 2011 were Kirloskar Technologies (P) Ltd., a distributor in India that accounted for 18% of our revenues, Tzamal Jacobsohn Ltd., a distributor in Israel that accounted for 12% of our revenues, and Izasa Distribuciones Tecnicas SA, a distributor in Spain that accounted for 9% of our revenues. Our agreement with Kirloskar Technologies (P) Ltd. grants Kirloskar Technologies (P) Ltd. the right to be the exclusive distributor of MGuardTM products in India until May 2013, subject to achievement of certain order minimums. Under our agreement with Kirloskar Technologies (P) Ltd., Kirloskar Technologies (P) Ltd. was required to purchase 15,000 stents from us in 2011 and is required to purchase 20,000 stents from us in 2012, at a price per stent of $600, for total minimum order values of $9,000,000 in 2011 and $12,000,000 in 2012, respectively. Kirloskar Technologies (P) Ltd. will also be eligible to receive free stents representing 15% or 20% of the total value of stents purchased, depending upon the annual volume of the purchases of our stents. Although Kirloskar Technologies (P) Ltd. did not achieve its order minimum for 2011, we did not terminate either our agreement with Kirloskar Technologies (P) Ltd. or Kirloskar Technologies (P) Ltd.'s right to be the exclusive distributor of MGuardTM products in India. Our agreement with Tzamal Jacobsohn Ltd. grants Tzamal Jacobsohn Ltd. the right to be the exclusive distributor MGuardTM products in Israel until December 2012, subject to achievement of certain order minimums. Under our agreement with Tzamal Jacobsohn Ltd., Tzamal Jacobsohn Ltd. must achieve at least 85% of the following order minimums: 1,400 stents during the twelve months ending March 31, 2012 and 1,600 stents during the twelve months ending March 31, 2013, at a price per stent, per an oral agreement, of 400 Euros, for total minimum order values of 560,000 Euros and 640,000 Euros, respectively. Tzamal Jacobsohn Ltd. will be granted options to purchase 8,116 shares of our common stock for each $100,000 in sales upon achievement of the order minimums. Tzamal Jacobsohn Ltd. did not meet its order minimum for the twelve months ended March 31, 2012 and, accordingly, no options were granted to Tzamal Jacobsohn Ltd. under this agreement. Our agreement with Izasa Distribuciones Tecnicas SA grants Izasa Distribuciones Tecnicas SA the right to be the exclusive distributor of MGuardTM products in Spain until May 2012, subject to achievement of certain order minimums. Under our agreement with Izasa Distribuciones Tecnicas SA, Izasa Distribuciones Tecnicas SA was required to purchase 4,000 stents from us in 2011, at a price per stent of 700 Euros, for a total minimum order value of 2,800,000 Euros in 2011. Izasa Distribuciones Tecnicas SA did not achieve its order minimum for 2011 and was not eligible to receive free stents pursuant to its agreement; however, we did not terminate either our agreement with Izasa Distribuciones Tecnicas SA or Izasa Distribuciones Tecnicas SA's right to be the exclusive distributor of MGuardTM products in Spain. In addition, pursuant to an amendment to our agreement with Izasa Distribuciones Tecnicas SA, Izasa Distribuciones Tecnicas SA, through its subsidiaries, was required to purchase 500 MGuard Prime™ stents from us at a price per stent of 700 Euros in February 2011. Izasa Distribuciones Tecnicas SA met its purchase requirement in February 2011 and received a bonus of 100 free stents. Izasa Distribuciones Tecnicas SA also agreed to partner with us in a study to be conducted in Spain entitled MGuard Prime Implementation in STEMI (acute myocardial infarction with ST elevation). In addition, other current significant customers are in Germany, Argentina, and Brazil.

Our major customer in 2010 was Hand-Prod Sp. Z o.o, a Polish distributor, that accounted for 29% of our revenues. We have an agreement with Hand-Prod Sp. Z o.o that grants Hand-Prod Sp. Z o.o the right to be the exclusive distributor of MGuardTM products in Poland until December 2012, subject to achievement of certain order minimums. Under our agreement with Hand-Prod Sp. Z o.o, Hand-Prod Sp. Z o.o was required to purchase 1,500 stents from us in 2011 and must purchase 2,500 stents from us in 2012, at a price per stent of 400 Euro, for total minimum order values of 600,000 Euro in 2011 and 1,000,000 Euro in 2012, respectively. Hand-Prod Sp. Z o.o did not achieve its order minimum for 2011 and therefore did not receive any free stents in 2011, but will be eligible to receive 500 free stents in 2012 if it achieves the minimum order values for that year. Although Hand-Prod Sp. Z o.o did not achieve its order minimum for 2011, we did not terminate either our agreement with Hand-Prod Sp. Z o.o or Hand-Prod Sp. Z o.o's right to be the exclusive distributor of MGuardTM products in Poland. In addition, in 2011, we granted Hand-Prod Sp. Z o.o an option to purchase 48,697 shares of our common stock as consideration for its assistance in promoting our business in Poland.

Manufacturing and Suppliers

We manufacture our stainless steel MGuardTM stent through a combination of outsourcing and assembly at our own facility. Third parties in Germany manufacture the base stent and catheter materials, and we add our proprietary mesh sleeve to the stent. Our current exclusive product supplier is QualiMed Innovative Medizinprodukte GmbH. QualiMed Innovative Medizinprodukte GmbH is a specialized German stent manufacturer that electro polishes and crimps the stent onto a balloon catheter that creates the base for our MGuardTM stents. QualiMed Innovative Medizinprodukte GmbH has agreed to take responsibility for verifying and validating the entire stent system by performing the necessary bench test and biocompatibility testing. During the production process, QualiMed Innovative Medizinprodukte GmbH is responsible for integrating the mesh covered stent with the delivery system, sterilization, packaging and labeling. Our manufacturing agreement with QualiMed Innovative Medizinprodukte GmbH expires in September 2017, unless earlier terminated by either party in the event of breach of material terms of the agreement, liquidation of the other party, our failure to receive requested products for more than 60 days, a substantiated intellectual property claim is brought against the other party or the development agreement between the parties is terminated. The manufacturing agreement provides for a rebate program that rewards us for increases in sales of our products. Our proprietary mesh sleeve 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 MGuardTM stents. Our agreement with Natec Medical Ltd., which may be terminated by either party upon six months notice, calls for non-binding minimum orders and discounted catheters upon reaching certain purchasing thresholds.

Our MGuard Prime™ cobalt-chromium stent was designed by Svelte Medical Systems Inc. We have an agreement with Svelte Medical Systems Inc. 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™ stents. We will pay a royalty of 7% for all product sales outside of the U.S. and, for products sales within the U.S., a rate of 7% for the first $10 million of sales and a rate of 10% for all sales exceeding $10 million. We will also share with Svelte Medical Systems Inc. in the cost of obtaining the CE Mark approval, with our costs not to exceed $85,000, and the U.S. Food and Drug Administration approval, with our costs not to exceed $200,000. 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 MGuard Prime™ cobalt-chromium stent.

Our MGuard Prime™ cobalt-chromium stent is 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™ is priced on a per-stent basis, subject to the quantity of stents ordered. The complete assembly process for MGuard Prime™, 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™ has been assembled, it is sent for sterilization in Germany and then back to Israel for final packaging.

MGuardTM is manufactured from two main components, the stent and the mesh polymer. The stent is made out of stainless steel or cobalt chromium. Both of these materials are readily available and we acquire them in the open market. The mesh is made from polyethylene terephthalate (PET). 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.

Distributors

We currently have exclusive distribution agreements for our CE Mark-approved MGuard™ Coronary with bio stable mesh with medical product distributors based in Italy, Germany, Austria, Czech Republic, Slovakia, France, Slovenia, Greece, Cyprus, Portugal, Spain, Poland, Hungary, Estonia, Lithuania, Ukraine, United Kingdom, Holland, Russia, Latvia, Brazil, Chile, Costa Rica, Mexico, Argentina, Colombia, India, Sri Lanka, South Africa, Pakistan and Israel. We are currently in discussions with multiple distribution companies in Europe, Asia, and Latin America.

Current and future agreements with distributors stipulate that while we are responsible for training, providing marketing guidance, marketing materials, and technical guidance, distributors will be responsible for carrying out local registration, marketing activities and sales. 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 for a term of approximately three years and automatically renew for an additional three years unless modified by either party.

Employees

As of May 30, 2012, we had 67 full-time employees. Our employees are not party to any collective bargaining agreements. 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 Tel Aviv, Israel where we currently have an 825 square meter facility that employs 34 of our manufacturing personnel and currently has a capacity to manufacture and assemble 3,000 stents per month. 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. As of the date of this filing, we are not a party to any material litigation nor are we aware of any such threatened or pending litigation, except for the matters described below.

On November 2, 2010, Eric Ben Mayor, a former senior employee of InspireMD Ltd., filed suit in Regional Labor Court in Tel Aviv, claiming illegal termination of employment and various amounts in connection with his termination, including allegations that he is owed salary, payments to pension fund, vacation pay, sick days, severance pay, commission for revenues and other types of funds. In total, Mr. Mayor is seeking $428,000, additional compensation for holding back wages, and options to purchase 2,029,025 shares of our common stock at an exercise price of $0.001 per share. We have filed a notice in Regional Labor Court indicating that the parties have rejected a court proposal for mediation and a second preliminary hearing was held on November 3, 2011. We received an extension from the court to file motions regarding the disclosure procedure between the parties until June 20, 2012. No further hearing date has been set.

Other than as set forth above, there are no material proceedings in which any of our directors, officers or affiliates or any registered or beneficial shareholder of more than 5% of our common stock is an adverse party or has a material interest adverse to our interest.

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
Ofir Paz	46	Chief Executive Officer and Director
Asher Holzer, Ph.D.	62	President and Director
Craig Shore	51	Chief Financial Officer, Secretary and Treasurer
Eli Bar	47	Senior Vice President of Research and Development and Chief Technical Officer of InspireMD Ltd.
Robert Ratini	49	Vice President of Sales and Marketing of InspireMD Ltd.
Sol J. Barer, Ph.D.	64	Chairman of the Board of Directors
James Barry, Ph.D.	52	Director
Paul Stuka	56	Director
Eyal Weinstein	58	Director

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 and Paul Stuka are our class 1 directors, with their terms of office to expire at our 2012 annual meeting of stockholders. Asher Holzer and Eyal

Weinstein are our class 2 directors, with their terms of office to expire at our 2013 annual meeting of stockholders. Ofir Paz and James Barry are our class 3 directors, with their terms of office to expire at our 2014 annual meeting of stockholders. At each annual meeting of stockholders, commencing with the 2012 annual meeting, 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 are elected annually by, and serve at the pleasure of, our board of directors.

Executive Officers and Directors

Ofir Paz has served as our chief executive officer and a director since March 31, 2011. In addition, Mr. Paz has served as the chief executive officer and a director of InspireMD Ltd. since May 2005. From April 2000 through July 2002, Mr. Paz headed the Microsoft TV Platform Group in Israel. In this capacity, Mr. Paz managed the overall activities of Microsoft TV Access Channel Server, a server-based solution for delivering interactive services and Microsoft Windows-based content to digital cable set-top boxes. Mr. Paz joined Microsoft in April 2000 when it acquired Peach Networks, which he founded and served as its chief executive officer. Mr. Paz was responsible for designing Peach Networks' original system architecture, taking it from product design to a viable product, and then managing and leading the company up to and after its acquisition, which was valued at approximately $100 million at the time of such acquisition. Mr. Paz currently serves on the board of directors of A. S. Paz Investment and Management Ltd., S.P. Market Windows Israel Ltd. and Peach Networks Ltd. Mr. Paz received a B.Sc. in Electrical Engineering, graduating cum laude, and a M.Sc. from Tel Aviv University. Mr. Paz's qualifications to serve on the board include his prior experience in successfully establishing and leading technology companies in Israel. In addition, as chief executive officer, Mr. Paz's position on the board ensures a unity of vision between the broader goals our company and our day-to-day operations.

Asher Holzer, PhD, has served as our president since March 31, 2011 and previously also served as our chairman from March 31, 2011 until November 16, 2011. In addition, Dr. Holzer has served as the president and chairman of the board of InspireMD Ltd. since April 2007. Previously, Dr. Holzer founded Adar Medical Ltd., an investment firm specializing in medical device startups, and served as its chief executive officer from 2002 through 2004. Dr. Holzer currently serves on the board of directors of Adar Medical Ltd., O.S.H.-IL The Israeli Society of Occupational Safety and Health Ltd., Ultra-Cure Ltd., GR-Ed Investment and Enterprise Ltd., Vasculogix Ltd., Theracoat Ltd., Cuber Stent Ltd., 2to3D Ltd., and S.P. Market Windows Cyprus. Dr. Holzer earned his PhD in Applied Physics from the Hebrew University. Dr. Holzer is also an inventor and holder of numerous patents. Dr. Holzer brings to the board his more than 25 years of experience in advanced medical devices, as well as expertise covering a wide range of activities, including product development, clinical studies, regulatory affairs, market introduction and the financial aspects of the stent business.

Craig Shore has served as our chief financial officer, secretary and treasurer since March 31, 2011. In addition, since November 10, 2010, Mr. Shore has 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 U.S., 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.

Eli Bar has served as InspireMD Ltd.'s senior vice president of research and development and chief technical officer since February 2011. Prior to that, he served as InspireMD Ltd.'s vice president of research and development since October 2006 and engineering manager since June 2005. Mr. Bar has over 15 years experience in medical device product development. Mr. Bar has vast experience building a complete research and development structure, managing teams from the idea stage to an advanced marketable product. He has been involved with many medical device projects over the years and has developed a synthetic vascular graft for femoral and coronary artery replacement, a covered stent and a fully implantable Ventricular Assist Device. Mr. Bar has more than nine filed device and method patents and he has initiated two medical device projects. Mr. Bar is also a director of Blue Surgical Ltd., a medical device company based in Israel. Mr. Bar graduated from New Haven University in Connecticut with a B.Sc. in

Mechanical Engineering.

Robert Ratini has served as InspireMD Ltd.'s vice president of sales and marketing in a part-time capacity since March 27, 2012 and will become its full-time vice-president of sales and marketing beginning on June 1, 2012. Mt. Ratini, however, is currently in charge of our sales and marketing unit. From April 2011 through March 26, 2012, Mr. Ratini served as a business consultant and the vice president of business development for Easy Med Services, Inc. in Geneva, Switzerland, Stentys SA in Paris, France and Parvulus SA in Lonay, Switzerland. From October 2009 through March 2011, Mr. Ratini served as the director of marketing for Orbusneich Medical and from October 2006 through September 2009, Mr. Ratini served as vice president global marketing and EMEA sales for Biosensors International, Switzerland. Mr. Ratini has extensive cardiology and vascular experience and has worked in the medical information technology industry since 1989. Mr. Ratini graduated from the University of Applied Sciences in Bienne, Switzerland with a Master of Computer Science.

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 30 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 and chairman beginning in May 2006 until his retirement in June 2011. Dr. Barer is also a director of 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.

James Barry, Ph.D. has served as a director since January 30, 2012. 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. 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.

Paul Stuka has served as a director since August 8, 2011. Mr. Stuka has served as the managing member of Osiris Partners, LLC since 2000. Prior to forming Osiris Partners, LLC, Mr. Stuka, with 30 years 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 U.S. for the five-year period ending December 31, 1985. 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.

Eyal Weinstein has served as a director since August 8, 2011. Mr. Weinstein is the chief executive officer of LEOREX Ltd., a company developing and marketing Dermo Cosmetic products. From 2001 to 2007, Mr. Weinstein worked as manager-partner of C.I.G., an economic and accounting consultancy, consulting for leading Israeli banks, including Leumi Bank, Hapoalim Bank, Discount Bank and Bank Hamizrachi. From 2000 to 2001, he was manager-partner of Exseed, a venture capital fund that invested in early-stage companies. Beginning in 1996, Mr. Weinstein was a partner and founder in the establishment of three high-tech companies that were ultimately sold, two to Microsoft Corporation. Mr. Weinstein brings to the board his considerable management and business experience as an executive of several companies and investment funds in Israel.

Agreements with Executive Officers

Ofir Paz

On April 1, 2005, InspireMD Ltd. entered into an employment agreement with Ofir Paz to serve as InspireMD Ltd.'s chief executive officer. Such employment agreement was subsequently amended on October 1, 2008 and March 28, 2011. Pursuant to this employment agreement, as amended, Mr. Paz was entitled to a monthly gross salary of $15,367. Mr. Paz was also entitled to certain social and fringe benefits as set forth in the employment agreement, which totaled 25% of his gross salary, as well as a company car. Mr. Paz was also entitled to a minimum bonus equivalent to three monthly gross salary payments based on achievement of objectives and board of directors approval. Mr. Paz was eligible to receive stock options pursuant to this agreement following its six month anniversary, subject to board approval. If Mr. Paz's employment was terminated with or without cause, he was entitled to at least six months' prior notice and would have been paid his salary and all social and fringe benefits in full during such notice period.

On April 1, 2011, in order to obtain more favorable tax treatment in Israel, the employment agreement with Mr. Paz was terminated and InspireMD Ltd. entered into a consultancy agreement with A.S. Paz Management and Investment Ltd., an entity wholly-owned by Mr. Paz, through which Mr. Paz was retained to serve as InspireMD Ltd.'s chief executive officer. Pursuant to this consultancy agreement, Mr. Paz was entitled to a monthly consultancy fee of $21,563. Mr. Paz was also entitled to a minimum bonus equivalent to three monthly gross salary payments based on achievement of objectives and board of directors approval. If Mr. Paz's employment was terminated without cause, he was entitled to at least six months' prior notice and would have been paid his consultancy fee during such notice period.

At the request of the compensation committee, Mr. Paz agreed, effective as of December 1, 2011, to terminate his consultancy agreement, be compensated as an employee and enter into a new employment agreement on substantially the same terms as the consultancy agreement. Since December 1, 2011, Mr. Paz has been an employees of ours and has received the same level of compensation (i.e., base salary and benefits) as under his consultancy agreement. We are in the process of finalizing his employment agreement, but we expect that its terms will be substantially the same as those of the consultancy agreement.

For a description of certain severance and pension payments to which Mr. Paz was and will be entitled under his agreements, see "Executive Compensation – Potential Payments Upon Termination or Change of Control."

Asher Holzer

On April 1, 2005, InspireMD Ltd. entered into an employment agreement with Dr. Asher Holzer to serve as InspireMD Ltd.'s president. Such employment agreement was subsequently amended on March 28, 2011. Pursuant to this employment agreement, as amended, Dr. Holzer was entitled to a monthly gross salary of $15,367. Dr. Holzer was also entitled to certain social and fringe benefits as set forth in the employment agreement, which totaled 25% of his gross salary, as well as a company car. Dr. Holzer was also entitled to a minimum bonus equivalent to three monthly gross salary payments based on achievement of objectives and board of directors approval. Dr. Holzer was eligible to receive stock options pursuant to this agreement following its six month anniversary, subject to board approval. If Dr. Holzer's employment was terminated with or without cause, he was entitled to at least six months' prior notice and would have been paid his salary and all social and fringe benefits in full during such notice period.

On April 29, 2011, effective April 1, 2011, in order to obtain more favorable tax treatment in Israel, the employment agreement with Dr. Holzer was terminated and InspireMD Ltd. entered into a consultancy agreement with The Israeli Society Ltd., an entity wholly-owned by Dr. Holzer, through which Dr. Holzer was retained to serve as InspireMD Ltd.'s president. Pursuant to this consultancy agreement, Dr. Holzer was entitled to a monthly consultancy fee of

$21,563. Dr. Holzer was also entitled to a minimum bonus equivalent to three monthly gross salary payments based on achievement of objectives and board of directors approval. If Dr. Holzer's employment was terminated without cause, he was entitled to at least six months' prior notice and would have been paid his consultancy fee during such notice period.

At the request of the compensation committee, Dr. Holzer agreed, effective as of December 1, 2011, to terminate his consultancy agreement, be compensated as an employee and enter into a new employment agreement on substantially the same terms as the consultancy agreement. Since December 1, 2011, Dr. Holzer has been an employees of ours and has received the same level of compensation (i.e., base salary and benefits) as under his consultancy agreement. We are in the process of finalizing his employment agreement, but we expect that its terms will be substantially the same as those of the consultancy agreement.

For a description of certain severance and pension payments to which Dr. Holzer was and will be entitled under his agreements, see "Executive Compensation – Potential Payments Upon Termination or Change of Control."

Craig Shore

On November 28, 2010, InspireMD Ltd. entered into an employment agreement with Craig Shore to serve as InspireMD Ltd.'s vice president of business development. Pursuant to the employment agreement, Mr. Shore was entitled to a monthly gross salary of $8,750, which amount increased to $10,200 upon consummation of our share exchange transactions on March 31, 2011 and which further increased to $10,620 as of July 1, 2011. Mr. Shore is also entitled to certain social and fringe benefits as set forth in the employment agreement. Mr. Shore is also entitled to, and received, a grant of options to purchase 45,000 restricted ordinary shares of InspireMD Ltd. which were converted into options to purchase 365,223 shares of our common stock following the consummation of our share exchange transactions on March 31, 2011; such options shall fully vest if Mr. Shore's employment is terminated in connection with a change of control. If Mr. Shore's employment is terminated without cause, Mr. Shore shall be entitled to at least 30 days' prior notice and shall be paid his salary in full and all social and fringe benefits during such notice period. If a major change of control of InspireMD Ltd. occurs, Mr. Shore will be entitled to at least 180 days' prior written notice and shall be paid his salary in full and all social and fringe benefits during such notice period. If Mr. Shore is terminated for cause, he is not entitled to any notice.

For a description of certain severance and pension payments to which Mr. Shore is entitled under his employment agreement, see "Executive Compensation – Potential Payments Upon Termination or Change of Control."

Eli Bar

On June 26, 2005, InspireMD Ltd. entered into an employment agreement with Eli Bar to serve as InspireMD Ltd.'s engineering manager. Pursuant to this employment agreement, Mr. Bar is entitled to a monthly gross salary of $8,750, which amount increased to $10,620 as of July 1, 2011. Mr. Bar is also entitled to certain social and fringe benefits as set forth in the employment agreement including a company car. If Mr. Bar's employment is terminated without cause, he is entitled to at least 60 days' prior notice and shall be paid his salary in full and all social and fringe benefits during such notice period.

For a description of certain severance and pension payments to which Mr. Bar is entitled under his employment agreement, see "Executive Compensation – Potential Payments Upon Termination or Change of Control."

Robert Ratini

On March 27, 2012, InspireMD Ltd. entered into a consultancy agreement for sales and marketing services with Robert Ratini. Pursuant to the consultancy agreement, Mr. Ratini will serve as our vice-president of sales and marketing. Until May 31, 2012, Mr. Ratini will provide services on a part-time basis and, beginning on June 1, 2012, he will serve as the full-time vice-president of sales and marketing. Mr. Ratini will receive $20,000 per month in consideration for his services, which will be paid on a pro-rata basis until May 31, 2012, and will also receive a monthly phase-in payment of $7,000 from June 1, 2012 to December 31, 2012. Mr. Ratini will also be eligible to receive various performance-based commissions, which are dependent upon the levels of revenue generated by his sales activity. The consultancy agreement also contains certain confidentiality, non-competition and non-solicitation requirements for Mr. Ratini. The consultancy agreement has no termination date, but may be terminated without cause by InspireMD Ltd. (i) immediately at any time prior to May 31, 2012; (ii) upon 30 day prior written notice if such notice is submitted between June 1, 2012 and August 31, 2012; or (iii) upon 90 day prior written notice if such notice is submitted after September 1, 2012.

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Executive Compensation

Compensation Discussion and Analysis

The Compensation Discussion and Analysis discusses the principles underlying our executive compensation policies and decisions for our named executive officers. It provides qualitative information regarding the manner in which compensation is earned by our named executive officers and places in context the data presented in the tables that follow. In addition, we address the compensation paid or awarded during 2011 to our named executive officers: Ofir Paz, our chief executive officer (principal executive officer), Craig Shore, our chief financial officer, secretary and treasurer (principal financial and accounting officer), Asher Holzer, Ph.D., our president, Eli Bar, the senior vice president of research and development and chief technical officer of InspireMD Ltd., and Sara Paz, the vice president of sales of InspireMD Ltd., who ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing on March 27, 2012, but has temporarily retained her title as vice president of sales.

We formed a compensation committee on September 21, 2011. Prior to that date, all compensation decisions for Mr. Paz and Dr. Holzer were made by our board of directors. Mr. Paz was responsible for the executive compensation packages of Messrs. Shore and Bar and Ms. Paz. Because of the potential conflict of interest, Dr. Holzer and Mr. Shore also reviewed and approved Mr. Paz's decision with respect to Ms. Paz's compensation before it was implemented. The current compensation packages of Mr. Paz and Dr. Holzer were determined before our share exchange transactions on March 31, 2011, when InspireMD Ltd. was a private Israeli company. In accordance with Israeli law, their compensation was submitted to and approved by the stockholders of InspireMD Ltd. on February 28, 2011. Our board of directors also reviewed and approved Mr. Shore's compensation package after the share exchange transactions.

Going forward, the compensation committee of our board of directors will review at least annually and determine the executive compensation packages for Mr. Paz and Dr. Holzer, including approving any grants of stock options. Mr. Paz will remain responsible for making recommendations to our compensation committee with respect to the executive compensation packages for Messrs. Shore and Bar and Ms. Paz, including any grants of stock options.

In considering compensation for our named executive officers, the board of directors has historically relied upon the officer's performance and contribution to our development and achievements. We did not engage in any formal benchmarking or conduct or obtain any formal surveys of executive compensation at peer companies. We also considered general compensation trends.

The compensation committee is currently conducting its review of named executive officer compensation for 2012. The compensation committee has retained the services of a compensation consultant to assist with this review, and anticipates that it may engage in formal benchmarking of our named executive officers' compensation against that at companies that it considers to be comparable to us. Based on this data, the compensation committee may target our overall compensation packages, or elements of our compensation packages, to fall within a certain percentile of the comparator group. The compensation committee has not made such a decision at this time.

We have entered into agreements with all of our named executive officers. These agreements are summarized under "Executive Officers and Directors – Agreements with Executive Officers." Mr. Paz and Dr. Holzer were compensated pursuant to consultancy agreements beginning on April 1, 2011. However, at the request of the compensation committee, Mr. Paz and Dr. Holzer agreed, effective as of December 1, 2011, to terminate their consultancy agreements, be compensated as employees and enter into new employment agreements on substantially the same terms as the consultancy agreements. Since December 1, 2011, Mr. Paz and Dr. Holzer have been employees of ours and have received the same level of compensation (i.e., base salary and benefits) as under their consultancy

agreements. We are in the process of finalizing their employment agreements, but we expect that their terms will be substantially the same as those of the consultancy agreements.

Philosophy of Compensation

The goals of our compensation policy are to ensure that executive compensation rewards management for helping us achieve our financial goals (increased sales, profitability, etc.) and meet our clinical trial milestones and aligns management's overall goals and objectives with those of our stockholders. To achieve these goals, our board of directors and, going forward, our compensation committee, aims to:

- provide a competitive compensation package that enables us to attract and retain superior management personnel;
- relate compensation to our overall performance, the individual officer's performance and our assessment of the officer's future potential;
- reward our officers fairly for their role in our achievements; and
- align executives' objectives with the objectives of stockholders by granting equity awards to encourage executive stock ownership.

We have determined that in order to best meet these objectives, our executive compensation program should balance fixed and bonus compensation, as well as cash and equity compensation, as discussed below. Historically, there has been no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation for our executive officers.

Components of Compensation

The principal components of compensation for our named executive officers are base salary/consulting fees, equity based grants, personal benefits and perquisites and, potentially in the future, cash bonuses.

Base Salary/Consulting Fees. The primary component of compensation for our named executive officers is base salary (or consulting fees for our named executive officers who are employed pursuant to consultancy agreements). Base salary levels for our named executive officers have historically been determined based upon an evaluation of a number of factors, including the individual officer's level of responsibility, length and depth of experience and our assessment of the officer's future potential with our company, performance and, to the extent available, general compensation levels of similarly situated executives and general compensation trends. Although our employment and consultancy agreements with our named executive officers set forth a fixed base salary, salaries have been reviewed periodically and changed, when deemed appropriate, by oral or written amendment to the applicable officer's agreement. For 2011, we generally increased the base salaries of our executive officers, in part as a reflection of our becoming a publicly traded company in the U.S. and the accompanying increased responsibilities for our executive officers. Prior to April 1, 2011, Ms. Paz was compensated on an hourly basis, based on a fixed hourly consulting fee.

For 2012 and in the future, the compensation committee intends to review each named executive officer's base salary/consulting fee on an annual basis. In addition to the factors described above, in setting base salary, the compensation committee intends to consider the recommendations of our compensation consultant and more formal data regarding the compensation levels of similarly situated executives.

Equity Based Grants. An additional principal component of our compensation policy for named executive officers consists of grants under the InspireMD, Inc. 2011 UMBRELLA Option Plan. Under this plan, among other awards, executive officers may be granted stock options. Since its formation, the compensation committee of the board of

directors has administered the grants of awards under the InspireMD, Inc. 2011 UMBRELLA Option Plan, and prior to its formation, the board of directors administered such awards. To date, all equity incentive awards have been made either (i) in accordance with negotiated terms set forth in our employment or consultancy agreements, at levels deemed necessary to attract or retain the executive at the time of such negotiations and determined taking into account the recipient's overall compensation package and the goal of aligning such executive's interest with that of our stockholders, or (ii) at the discretion of the compensation committee without reference to any formal targets or objectives, when deemed appropriate in connection with extraordinary efforts or results or necessary in order to retain the executive in light of the executive's overall compensation package.

We believe that equity ownership of our company by our named executive officers will further align the interests of our executive officers with those of our stockholders.

For 2012 and in the future, our compensation committee intends to consider during our annual compensation review whether to grant equity incentive awards to our named executive officers, and the terms of any such awards, including whether to set any performance targets or other objective or subjective criteria related to the final grant or vesting of such awards. The compensation committee will also retain the flexibility to make additional grants throughout the year if deemed necessary or appropriate in order to retain our named executive officers or reward extraordinary efforts or achievements.

Personal Benefits and Perquisites. Certain of our named executive officers are entitled to additional personal benefits in accordance with what we believe to be customary practice and law in Israel, including contributions towards pension and vocational studies funds, annual recreational allowances, a company car, a daily food allowance and a company phone. We believe these benefits are commonly provided to executives in Israel, and we therefore believe that it is necessary for us to provide these benefits in order to attract and retain superior management personnel.

Cash Bonus. Historically, we have never paid cash bonuses to our executives; however, our consultancy agreements with Mr. Paz and Dr. Holzer provided for cash bonuses to be paid at the discretion of our board of directors in an amount not less than three months' salary, and we believe that their new employment agreements will also provide for the payment of a discretionary cash bonus. We believe that cash bonus payments are an appropriate means to reward significant achievement and contribution to us by an executive officer, especially for officers that already hold significant equity positions in our company. Therefore, for 2012 and going forward, cash bonuses may become a more significant component of our compensation policy for executive officers. We intend to consider the amount of cash bonus that each of our named executive officers should be entitled to receive at the end of the year in connection with our annual compensation review, taking into account each executive's total compensation package, the recommendations of our compensation consultant, and any more formal data we obtain regarding the compensation levels of similarly situated executives We will also consider in connection with such review whether to designate certain financial or operational metrics or other objective or subjective criteria in determining the final amounts of such awards.

Compensation of Named Executive Officers

Compensation of Chief Executive Officer. In 2011, Mr. Paz's total compensation was $247,039, as compared to $219,160 in total compensation in 2010. Mr. Paz's total compensation was comprised of (i) salary payments under his employment agreement with us, (ii) consulting fees paid pursuant to the consultancy agreement InspireMD Ltd. entered into with A.S. Paz Management and Investment Ltd., an entity wholly-owned by Mr. Paz, through which Mr. Paz was retained to serve as InspireMD Ltd.'s chief executive officer from April 1, 2011 through November 30, 2011, (iii) salary payments made during December 2011, and (iv) benefits and perquisites, as more fully discussed below. In 2011, Mr. Paz's salary compensation was $42,425 under his employment agreement, $122,970 under the consultancy agreement with A.S. Paz Management and Investment Ltd and $15,371 as an employee in December 2011, for a total of $180,766, as compared to $89,197 under his employment agreement and $78,491 under a consultancy agreement that was in effect prior to his employment agreement, for a total of $167,688, in 2010. In determining the compensation for Mr. Paz in 2011, our board of directors evaluated the corporate and organizational accomplishments of our company in 2010, as well as Mr. Paz's individual accomplishments. Mr. Paz's 2011 compensation was also increased in anticipation of our company becoming a publicly traded company in the U.S. and the additional obligations that would entail for our chief executive officer. Mr. Paz's compensation package for 2011 was determined before our share exchange transactions on March 31, 2011, when InspireMD Ltd. was a private Israeli company. In accordance with Israeli law, his compensation was submitted to and approved by the stockholders of InspireMD Ltd.

on February 28, 2011.

Mr. Paz also received various benefits as both our salaried employee and our consultant, many of which either are required by Israeli law or we believe are customarily provided to Israeli executives. These benefits included contributions to his pension and vocational studies funds, an annual recreation payment, a company car, a cell-phone and a daily food allowance. In 2011, Mr. Paz's benefits compensation through payments made to him as an employee and through payments made to A.S. Paz Management and Investment Ltd was $66,273, as compared to $51,472 in 2010. Our board of directors determined that equity based compensation would be inappropriate for Mr. Paz, in light of his current equity holdings in our company.

Compensation of Chief Financial Officer, Secretary and Treasurer. Mr. Shore was initially hired as our Vice President of Business Development and was promoted to his current position on March 31, 2011. In 2011, Mr. Shore's total compensation was $419,433, as compared to $13,162 in total compensation in 2010, which represented compensation paid from the commencement of Mr. Shore's employment on November 24, 2010. Mr. Shore's total compensation was comprised of salary payments under his employment agreement with us, an option grant under the InspireMD, Inc. 2011 UMBRELLA Option Plan, as more fully discussed below, and benefits and perquisites, as more fully discussed below. In 2011, Mr. Shore's annual salary was $118,333, as compared to $9,912 in 2010. Pursuant to his employment agreement with us, Mr. Shore's monthly salary was automatically increased during 2011, upon the consummation of our share exchange transactions. Upon Mr. Paz's recommendation, Mr. Shore's salary was further increased as of July 1, 2011 by an additional $838 per month on July 1, 2011. In determining to make such additional increase, Mr. Paz considered the corporate and organizational accomplishments of our company since Mr. Shore joined us, his role in such accomplishments, his general performance, his increased responsibilities as chief financial officer, the desire to ensure that his compensation is high enough to retain his services and the desire to make his compensation consistent with what we pay to our other senior executives.

Mr. Shore also received various benefits, many of which either are required by Israeli law or we believe are customarily provided to Israeli executives, including contributions to his pension and vocational studies funds, an annual recreation payment, a company car, a company cell phone, and a daily food allowance. In 2011, Mr. Shore's benefits compensation was $35,280, as compared to $3,250 in 2010.

In addition, in February 2011, Mr. Shore was granted options that currently represent the right to acquire up to 365,223 shares of our common stock at an exercise price of $1.23 per share. This award was part of the initial package negotiated with Mr. Shore in connection with his hiring in November 2010. The number of shares for which such award was exercisable and the exercise price were originally set forth in Mr. Shore's employment agreement and related to shares of InspireMD Ltd. The per share price was determined based on the price at which InspireMD Ltd. had most recently raised capital. The option was converted into the current number of shares at the current exercise price through the share exchange transactions. The options vest on an annual basis over three years. The options had a fair market value of $260,554 as of February 27, 2011. In determining to grant Mr. Shore a significant portion of his compensation in the form of options, our board of directors believed that it was important to give Mr. Shore an equity interest in us. Providing Mr. Shore with an equity stake was viewed by our board as important, as Mr. Shore previously did not hold any such stake in us, as opposed to Mr. Paz and Dr. Holzer. In determining the number of shares to award to Mr. Shore, Mr. Paz and our board of directors considered the need to provide Mr. Shore with a compensation package that was sufficient to attract him to accept employment with us, given that his base salary was believed to be relatively low for his position, and the desire to provide Mr. Shore with an equity position in our company that was significant enough to align his objectives with those of our stockholders and allow Mr. Shore to share in our future financial growth and the benefits of the share exchange and our becoming a U.S. public company.

Also, in May 2011, Mr. Shore was awarded a warrant to purchase 3,000 shares of our common stock at an exercise price of $1.80 per share as a bonus payment for his work performed in connection with our share exchange transactions. The warrant had a fair market value of $5,266 and vested immediately. The award was given in recognition of Mr. Shore's extraordinary efforts related to our private placement transaction on March 31, 2011.

Compensation of President. In 2011, Dr. Holzer's total compensation was $245,406, as compared to $209,592 in total compensation in 2010. Dr. Holzer's total compensation was comprised of (i) salary payments under his employment agreement with us, (ii) consulting fees paid pursuant to the consultancy agreement InspireMD Ltd. entered into with OSHIL, The Israeli Society Ltd., an entity wholly-owned by Dr. Holzer, through which Dr. Holzer was retained to serve as InspireMD Ltd.'s president from April 1, 2011 through November 30, 2011, (iii) salary payments made during December 2011, and (iv) benefits and perquisites, as more fully discussed below. In 2011, Dr. Holzer's salary compensation was $42,425 under his employment agreement, $122,970 under the consultancy agreement with OSHIL, The Israeli Society Ltd., and $15,371 as an employee in December 2011, for a total of $180,766, as compared to $89,197 under his employment agreement and $74,791 under a consultancy agreement that was in effect prior to his employment agreement, for a total of $163,988, in 2010. In determining the compensation for Dr. Holzer in 2011, our board of directors evaluated the corporate and organizational accomplishments of our company in 2010, as well as Dr. Holzer's individual accomplishments and contributions to our accomplishments. Our board of directors determined that an increase in compensation for Dr. Holzer was appropriate in 2011, in part, in anticipation of our company becoming a U.S. publicly traded company in 2011 and the increased responsibilities that would result for our president. Dr. Holzer's compensation package for 2011 was determined before the share exchange transactions, when InspireMD Ltd. was a private Israeli company. In accordance with Israeli law, his compensation was submitted to and approved by the stockholders of InspireMD Ltd. on February 28, 2011.

Dr. Holzer also received various benefits as both our salaried employee and our consultant, many of which either are required by Israeli law or we believe are customarily provided to Israeli executives. These benefits included contributions to his pension and vocational studies funds, an annual recreation payment, a company car and cell phone, and a daily food allowance. In 2011, Dr. Holzer's benefits compensation through payments made to him as an employee and through payments made to OSHIL, The Israeli Society Ltd. was $64,640, as compared to $45,604 in 2010. Our board of directors determined that equity based compensation would be inappropriate for Dr. Holzer, in light of his current equity holdings in our company.

Compensation of Senior Vice President of Research and Development and Chief Technical Officer of InspireMD Ltd. In 2011, Mr. Bar's total compensation was $350,394, as compared to $942,689 in total compensation in 2010. Mr. Bar's total compensation was comprised of salary payments under his employment agreement with us, option grants under the InspireMD, Inc. 2011 UMBRELLA Option Plan, as more fully discussed below, and benefits and perquisites, as more fully discussed below. In 2011, Mr. Bar's annual salary was $122,760, as compared to $91,684 in 2010. In determining the compensation for Mr. Bar in 2011, Mr. Paz evaluated the corporate and organizational accomplishments of our company in 2010, particularly with respect to the development of our products, as well as Mr. Bar's individual achievements and contributions to such accomplishments. Mr. Bar's increase in salary during 2011 reflected his significant contributions to our success in 2010, and our desire to retain him going forward. His 2011 salary was increased to the level it had been in August 2008, prior to salary reductions throughout the company.

Mr. Bar also received various benefits, many of which either are required by Israeli law or we believe are customarily provided to Israeli executives, including contributions to his pension and vocational studies funds, an annual recreation payment, a company car, a company cell phone, and a daily food allowance. In 2011, Mr. Bar's benefits compensation was $42,459, as compared to $32,496, in 2010.

In addition, in June 2011, Mr. Bar was awarded options to acquire up to 200,000 shares of common stock at an exercise price of $2.75 per share as a bonus payment for his significant contributions to our company. In determining to make such award, Mr. Paz considered Mr. Bar's continued exemplary performance and contributions to the clinical development of our product and the desire to continue to retain his services and keep his compensation consistent with what we pay to our other senior executives. We determined that granting Mr. Bar more of an equity interest would further increase his opportunity to share in our future financial success and align his objectives with those of our

stockholders. The options vest on an annual basis over a three year period. The options had a fair market value of $268,381 as of June 1, 2011. The exercise price was the fair market value of our common stock on the date of grant. In August 2011, we cancelled these options and reissued an option to purchase 200,000 shares of common stock at an exercise price of $1.93 because our board of directors determined that the $2.75 exercise price was too far out of the money to achieve the compensatory and incentive purposes of the options. The exercise price of the new option was the fair market value of our common stock on the date of grant. The fair value of the 200,000 options as of August 31, 2011 was $185,175.

Mr. Bar also received two option awards in July 2010. The first award currently represents the right to acquire up to 608,707 shares of our common stock at an exercise price of $0.001 per share. The number of shares for which such award was exercisable and the exercise price originally related to shares of InspireMD Ltd. The per share price was set at $0.01 per share. The option was converted into the current number of shares at the current exercise price through the share exchange transactions. The second award currently represents the right to acquire up to 81,161 shares of our common stock at an exercise price of $1.23 per share. The number of shares for which such award was exercisable and the exercise price also originally related to shares of InspireMD Ltd. The per share price was determined based on the price at which InspireMD Ltd. had most recently raised capital. The option was converted into the current number of shares at the current exercise price through the share exchange transactions. Both awards were made in recognition of Mr. Bar's contributions to our corporate and organizational achievements. The first award was related to Mr. Bar's performance over the long-term of his tenure with us and to our desire to grant Mr. Bar an equity stake that would not be at risk. In particular, in determining to make this award, the board of directors took into account the fact that, from September 2008 to April 2009, Mr. Bar accepted several salary reductions, which resulted in his monthly salary being reduced from approximately $10,133 to approximately $7,387. Mr. Bar's salary remained approximately $7,387 per month until August 2010, at which time his monthly salary was increased to $8,000. Furthermore, our board of directors decided that recognizing Mr. Bar's efforts and sacrifices through an equity award was the most appropriate form of compensation, as it would also serve to give Mr. Bar an additional equity interest in us. Providing Mr. Bar with an increased equity stake was viewed by our board as important, as Mr. Bar's existing options were deemed a very small stake in comparison to that held by Mr. Paz and Dr. Holzer. The second award was intended as a more traditional annual incentive award and related primarily to Mr. Bar's performance in 2010 and our desire to grant Mr. Bar traditional options whose value would fluctuate depending on the performance of our common stock. Both option awards vest one-twelfth quarterly commencing with the quarter in which they were granted. The first award had a fair market value of $750,000 as of July 25, 2010. The second award had a fair market value of $68,509 as of July 31, 2010.

Compensation of Vice President of Sales of InspireMD Ltd. In 2011, Ms. Paz's total compensation was $782,016, as compared to $77,603 in total compensation in 2010. Ms. Paz's total compensation was comprised of (i) payments for consulting fees under a consultancy agreement InspireMD Ltd. entered into with Ms. Paz which terminated on March 31, 2011 and provided for the payment of a fixed hourly consulting fee of $45 for services provided in Israel and a fixed daily consulting fee of $400 for services provided outside of Israel, and (ii) payments for consulting fees under a consultancy agreement InspireMD Ltd. entered into with Sara Paz Management and Marketing Ltd, an entity wholly-owned by Ms. Paz, through which Ms. Paz was retained to serve as InspireMD Ltd.'s vice president of sales as of April 1, 2011 (Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing on March 27, 2012, but has temporarily retained her title as vice president of sales), (iii) an option grant under the InspireMD, Inc. 2011 UMBRELLA Option Plan, as more fully discussed below, and (iv) benefits and perquisites, as more fully discussed below. Ms. Paz's payments under her consultancy agreements were $112,136 in 2011 as compared to $77,603 in 2010. In determining the compensation for Ms. Paz in 2011, Mr. Paz evaluated the corporate and organizational achievements of our company in 2010, with a particular emphasis on our sales growth, to which Ms. Paz's work contributed, her contributions and perceived future potential on a full-time basis and the compensation paid to similarly situated executives within our company. Dr. Holzer and Mr. Shore approved Mr. Paz's determination with respect to Ms. Paz's compensation.

In conjunction with InspireMD Ltd. entering into the consultancy agreement with Sara Paz Management and Marketing Ltd, we commenced paying Ms. Paz the benefits required by Israeli law and comparable benefits to our other executives. As such, pursuant to the consultancy agreement, in 2011, Ms. Paz received various benefits, including contributions to her pension and vocational studies funds, an annual recreation payment, a company car, a company cell phone, and a daily food allowance. In 2011, Ms. Paz's benefits compensation was $30,473.

In addition, in recognition of Ms. Paz's contributions to our corporate and organizational achievements in 2010, particularly with respect to the increased sales of our products, in June 2011, our board of directors awarded Ms. Paz options to acquire up to 365,225 shares of common stock at an exercise price of $1.50 per share. The options vest on a monthly basis over a three year period. The options had a fair market value of $639,407 as of June 1, 2011. The amount was determined with reference to the award made to Mr. Shore during 2011, for an approximately equal number of shares. The exercise price was the fair market value of our common stock on the date of grant. We did not consider the Black-Scholes valuation of the grant prior to making it. We did take into account the desire to provide Ms. Paz with an equity position in our company, separate from that of her husband, that would further align her objectives with those of our stockholders and allow her to share in our future financial growth. On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales.

Impact of Tax Laws

Deductibility of Executive Compensation. Generally, under U.S. law, a company may not deduct compensation of more than $1,000,000 that is paid to an individual employed by the company who, on the last day of the taxable year, either is the company's principal executive officer or an individual who is among the three highest compensated officers for the taxable year (other than the principal executive officer or the principal financial officer). The $1,000,000 limitation on deductions does not apply to certain types of compensation, including qualified performance-based compensation, and only applies to compensation paid by a publicly-traded corporation (and not compensation paid by non-corporate entities). Because the compensation deducted in the U.S. for each individual to whom this rule applies has historically been less than $1,000,000 per year, we do not believe that the $1,000,000 limitation will affect us in the near future. If the deductibility of executive compensation becomes a significant issue, our compensation plans and policies may be modified to maximize deductibility if our board of directors and we determine that such action is in our best interests.

Impact of Israeli Tax Law. The awards granted to employees pursuant to Section 102 of the Tax Ordinance under the InspireMD, Inc. 2011 UMBRELLA Option Plan may be designated by us as approved options under the capital gains alternative, or as approved options under the ordinary income tax alternative.

To qualify for the capital gains alternative, certain requirements must be met, including registration of the options in the name of a trustee. Each option, and any shares of common stock acquired upon the exercise of the option, must be held by the trustee for a period commencing on the date of grant and deposit into trust with the trustee and ending 24 months thereafter.

Under the terms of the capital gains alternative, we may not deduct expenses pertaining to the options for tax purposes.

Under the InspireMD, Inc. 2011 UMBRELLA Option Plan, we may also grant to employees options pursuant to Section 102(b)(3) of the Israeli Tax Ordinance that are not required to be held in trust by a trustee. This alternative, while facilitating immediate exercise of vested options and sale of the underlying shares, will subject the optionee to the marginal income tax rate of up to 45% as well as payments to the National Insurance Institute and health tax on the date of the sale of the shares or options. Under the InspireMD, Inc. 2011 UMBRELLA Option Plan, we may also grant to non-employees options pursuant to Section 3(I) of the Israeli Tax Ordinance. Under that section, the income tax on the benefit arising to the optionee upon the exercise of options and the issuance of common stock is generally due at the time of exercise of the options.

Allotment of these options may be subject to terms of the tax ruling that has been obtained by InspireMD Ltd. from the Israeli tax authorities according to Section 103 of the Israeli tax ordinance, with regard to the share exchange. According to the tax pre-ruling, the exchange of shares and options of InspireMD Ltd. for shares and options of our company pursuant to the share exchange will not result in an immediate tax event for InspireMD Ltd.'s former shareholders, but a deferred tax event, subject to certain conditions as stipulated in the tax pre-ruling. The main condition of the tax pre-ruling is a restriction on the exchanged shares for two years from December 31, 2010 for shareholders holding over of 5%.

Termination Payments

Our agreements with Messrs. Paz, Bar and Shore, Dr. Holzer and Ms. Paz and Israeli law provide for payments and other compensation in the event of termination under certain circumstances, as more fully described under "Executive Compensation – Potential Payments Upon Termination or Change of Control." These provisions are comprised of (i) notice periods of varying length prior to a termination without cause (180 days for Mr. Paz and Dr. Holzer, 30 days in

general and 180 days following certain change in control events for Mr. Shore, 60 days for Mr. Bar and 30 days for Ms. Paz), (ii) severance payments as required by Israeli law, (iii) vesting of Mr. Shore's, options upon his termination in connection with a change of control and (iv) vesting of Mr. Shore's, Mr. Bar's and Ms. Paz's options automatically upon a change of control if such stock options are not assumed or substituted by the surviving company. We believe that having these provisions in our agreements with our officers enables our officers to focus solely on the performance of their jobs by providing them with security in the event of certain terminations of employment. With respect to the notice provisions, we believe that these provide us with a mechanism to ensure a successful transition if we have to replace one of our named executive officers. In addition, we have provided these benefits to our officers because we believe it is necessary for retention purposes, to attract well qualified and talented executives and, in the case of severance payments, to comply with Israeli law. In exchange for these protections, our officers have agreed to be bound by certain restrictive covenants, including confidentiality, non-competition and non-solicitation provisions.

Risk Considerations in our Compensation Programs

Our compensation committee believes that risks arising from our policies and practices for compensating employees are not reasonably likely to have a material adverse effect on us and do not encourage risk taking that is reasonably likely to have a material adverse effect on us. Our compensation committee believes that the structure of our executive compensation program mitigates risks by avoiding any named executive officer placing undue emphasis on any particular performance metric at the expense of other aspects of our business.

2011, 2010 and 2009 Summary Compensation Table

The table below sets forth, for our last three fiscal years, the compensation earned by Ofir Paz, our chief executive officer, Craig Shore, our chief financial officer, secretary and treasurer, Asher Holzer, our president and former chairman of the board, Eli Bar, InspireMD Ltd.'s senior vice president of research and development and chief technical officer, Sara Paz, InspireMD Ltd.'s vice president of sales, and Lynn Briggs, our former president, chief executive officer, chief financial officer, secretary and treasurer.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(1)	Option Awards($)(2)	All Other Compensation ($)(1)	Total ($)(1)
Ofir Paz(3) Chief Executive Officer	2011	57,796	-	-	189,243(4)	247,039
	2010	89,197	-	-	129,963(4)	219,160
	2009	76,524	-	-	129,909(4)	206,433
Craig Shore Chief Financial Officer, Secretary and Treasurer	2011	118,333	-	260,554	40,546(5)	419,433
	2010	9,912	-	-	3,250(5)	13,162(6)
Asher Holzer(3) President and Former Chairman	2011	57,796	-	-	187,610(7)	245,406
	2010	89,197	-	-	120,395(7)	209,592
	2009	73,526	-	-	109,054(7)	182,580
Eli Bar Senior Vice President, Research and Development and Chief Technical Officer of InspireMD Ltd.	2011	122,760	-	185,175(8)	42,459(9)	350,394
	2010	91,684	-	818,509	32,496(9)	942,689
	2009	86,971	-	-	38,585(9)	125,556
Sara Paz(10) Vice President of Sales of InspireMD Ltd.	2011	-	-	639,407	142,609(11)	782,016
	2010	-	-	-	77,603(11)	77,603

	2009	-	-	-	59,197(11)	59,197
Lynn Briggs(12) Former President, CEO, CFO, Secretary and Treasurer	2011	-	-	-	-	-
	2010	-	-	-	-	-
	2009	-	-	-	-	-

(1) Compensation amounts received in non-U.S. currency have been converted into U.S. dollars using the average exchange rate for the applicable year. The average exchange rate for 2011 was 3.5781 NIS per dollar, the average exchange rate for 2010 was 3.7330 NIS per dollar and the average exchange rate for 2009 was 3.9326 NIS per dollar.

(2) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to the years ended December 31, 2009, 2010 and 2011, 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 Operation—Critical Accounting Policies—Share-based compensation" and Note 2—"Significant Accounting Policies" and Note 10—"Equity (Capital Deficiency)—Share Based Compensation" of the No to the Consolidated Financial Statements included herein.

(3) Both Mr. Paz and Dr. Holzer are directors but do not receive any additional compensation for their services as directors.

(4) Mr. Paz's other compensation consisted of $57,612 in consulting salary and $72,297 in benefits in 2009, $78,491 in consulting salary and $51,472 in benefits in 2010 and $122,970 in consulting salary and $66,273 in benefits in 2011. In each of 2009, 2010 and 2011, Mr. Paz's benefits included our contributions to his severance, pension, vocational studies and disability funds, an annual recreation payment, a company car and cell phone, and a daily food allowance. In 2011, the car-related benefits for Mr. Paz were valued at $26,473, which was comprised of aggregate payments of $19,992 towards a car and related expenses for approximately nine months of the year, and the use of a company car for approximately three months of the year, which was valued at $6,481, as computed by the Israeli taxation authorities.

(5) Mr. Shore's other compensation consisted solely of benefits in 2010 and consisted of a warrant award valued at $5,266 and $35,280 in benefits in 2011. In each of 2010 and 2011, Mr. Shore's benefits included our contributions to his severance, pension, vocational studies and disability funds, an annual recreation payment, a company car and cell phone, and a daily food allowance.

(6) Mr. Shore's total compensation in 2010 represented amounts paid beginning on November 24, 2010, the date of the commencement of Mr. Shore's employment with us.

(7) Dr. Holzer's other compensation consisted of $55,040 in consulting salary and $54,014 in benefits in 2009, $74,791 in consulting salary and $45,604 in benefits in 2010 and $122,970 in consulting salary and $64,640 in benefits in 2011. In each of 2009, 2010 and 2011, Dr. Holzer's benefits included our contributions to his severance, pension, vocational studies and disability funds, an annual recreation payment, a company car and cell phone, and a daily food allowance.

(8) On June 1, 2011, Mr. Bar was awarded options to acquire up to 200,000 shares of common stock at an exercise price of $2.75 per share as a bonus payment for his contributions to our company in 2010. The options had a fair market value of $268,381. In August 2011, we cancelled the option to purchase 200,000 shares of common stock

that were awarded to Mr. Bar in June 2011 and reissued an option to purchase 200,000 shares of common stock at an exercise price of $1.93 because our board of directors determined that the $2.75 exercise price was too far out of the money to achieve the compensatory and incentive purposes of the options. The new options had a fair market value of $185,175.

(9) Mr. Bar's other compensation in 2009, 2010 and 2011 consisted solely of benefits, including our contributions to his severance, pension, vocational studies and disability funds, an annual recreation payment, a company car and cell phone, and a daily food allowance.

(10) On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales.

(11) Ms. Paz's other compensation consisted of $59,197 in consulting salary in 2009, $77,603 in consulting salary in 2010 and $112,136 in consulting salary and $30,473 in benefits, including our contributions to her severance, pension, vocational studies and disability funds, an annual recreation payment, a company car and cell phone, and a daily food allowance, in 2011.

(12) Ms. Briggs resigned as our sole officer and director in connection with our share exchange transactions on March 31, 2011. She received no compensation for services, but was reimbursed for any out-of-pocket expenses that she incurred on our behalf.

2011 Grants of Plan-Based Awards

The following table sets forth information regarding grants of plan-based awards to our named executive officers in 2011:

Name	Grant Date	Option Awards: Number of Securities Underlying (#)	Exercise or Base Price of Option Awards Options ($/Sh)	Grant Date Fair Value of Option Awards ($)
Ofir Paz Chief Executive Officer	-	-	-	-
Craig Shore	2/27/2011	365,223	1.23	260,544
Chief Financial Officer, Secretary and Treasurer	5/20/2011	3,000(1)	1.80	5,266
Asher Holzer President and Former Chairman	-	-	-	-
Eli Bar (2)				
Senior Vice President, Research and Development and Chief Technical Officer of	6/1/2011	200,000	2.75	268,381
InspireMD Ltd.	8/31/2011	200,000	1.93	185,175
Sara Paz(3) Vice President of Sales of InspireMD Ltd.	6/1/2011	365,225	1.50	639,407
Lynn Briggs(4) Former President, CEO, CFO, Secretary and Treasurer	-	-	-	-

(1) On May 20, 2011, Mr. Shore was awarded a warrant to purchase 3,000 shares of our common stock at an exercise price of $1.80 per share as a bonus payment for his work performed in connection with our share exchange

transactions. The warrant had a fair market value of $5,266 and vested immediately. The award was given in recognition of Mr. Shore's extraordinary efforts related to our private placement transaction on March 31, 2011.

(2) On June 1, 2011, Mr. Bar was awarded options to acquire up to 200,000 shares of common stock at an exercise price of $2.75 per share as a bonus payment for his contributions to our company in 2010. The options had a fair market value of $268,381. In August 2011, we cancelled the option to purchase 200,000 shares of common stock that were awarded to Mr. Bar in June 2011 and reissued an option to purchase 200,000 shares of common stock at an exercise price of $1.93 because our board of directors determined that the $2.75 exercise price was too far out of the money to achieve the compensatory and incentive purposes of the options. This resulted in a change in fair market value to $185,175.

(3) On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales.

(4) Ms. Briggs resigned as our sole officer and director in connection with our share exchange transactions on March 31, 2011.

Outstanding Equity Awards at Fiscal Year-End 2011

The following table shows information concerning unexercised options outstanding as of December 31, 2011 for each of our named executive officers. There are no outstanding stock awards with our named executive officers:

Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price ($)	Option expiration date
Ofir Paz	-	-	-	-
Craig Shore	121,741	243,482 (1)	1.23	2/27/2021
Asher Holzer	-	-	-	-
Eli Bar	243,481	-	0.001	10/28/2016
	365,224	-	0.001	12/29/2016
	304,353	304,354(2)	0.001	7/22/2020
	40,581	40,580(2)	1.23	7/28/2020
	-	200,000(3)	1.93	5/23/2016
Sara Paz(4)	-	365,225(5)	1.50	6/1/2016

(1) These options were granted in February 2011 and vest annually commencing on November 23, 2011 and vesting on the next two anniversaries of that date.

(2) These options were granted in July 2010 and vest one-twelfth quarterly commencing with the quarter in which they were granted.

(3) These options were granted in August 2011 and vest annually commencing on May 23, 2012 and vesting on the next two anniversaries of that date.

(4) On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales.

(5) These options were granted in June 2011 and vest annually commencing on April 8, 2012 and vesting on the next two anniversaries of that date.

Option Exercises and Stock Vested

There were no stock options exercised by our named executive officers during 2011.

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. Under the InspireMD, Inc. 2011 UMBRELLA Option Plan, we have reserved 15,000,000 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 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.

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.

Potential Payments Upon Termination or Change of Control

Our agreements with Messrs. Paz, Bar and Shore, Dr. Holzer and Ms. Paz as well as Israeli law provide for payments and other compensation in the event of their termination or a change of control of us under certain circumstances, as described below.

Chief Executive Officer. Pursuant to Mr. Paz's consultancy agreement and, we anticipate, our new employment agreement with Mr. Paz, we possess the right to terminate his employment without "cause" (as such term is defined in the agreement) upon at least 180 days prior notice to Mr. Paz. During such notice period, we will continue to compensate Mr. Paz according to his agreement and Mr. Paz will be obligated to continue to discharge and perform all of his duties and obligations under the agreement, and to cooperate with us and use his best efforts to assist with the integration of any persons that we have delegated to assume Mr. Paz's responsibilities. We believe that this arrangement will assist us in achieving a successful transition upon Mr. Paz's departure. Mr. Paz is entitled to terminate his employment with us in the event that we do not fulfill our undertakings under our agreement, upon at least 30 days prior notice to us, during which time we may cure the breach. During such notice period, we will continue to compensate Mr. Paz according to his agreement and Mr. Paz will be obligated to continue to discharge and perform all of his duties and obligations under the agreement.

If Mr. Paz's employment is terminated for any reason other than for cause, as a senior executive under Israeli law, he will also be entitled to severance payments equal to the total amount that has been contributed to and accumulated in his severance payment fund. The total amount accumulated in his severance payment fund as of December 31, 2011 was $1,199, as adjusted for conversion from New Israeli Shekels to U.S. Dollars.

We are entitled to terminate Mr. Paz'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. Paz and Mr. Paz will not be entitled to the amount that has been contributed to and accumulated in his severance payment fund.

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

Chief Financial Officer, Secretary and Treasurer. Subject to certain conditions, either party to our employment agreement with Mr. Shore may terminate the employment agreement without "cause" (as such term is defined in Mr.

Shore's employment agreement with us) upon at least 30 days prior notice to the other party or, in the event of a major change of control in terms of the ownership of shares of our common stock or our intellectual property, upon at least 180 days prior notice. During such notice period, we will continue to compensate Mr. Shore according to his employment agreement and Mr. Shore will be obligated to continue to discharge and perform all of his duties and obligations under his employment agreement, and to cooperate with us and use his best efforts to assist with the integration of any persons that we have delegated to assume Mr. Shore's responsibilities. We believe that this arrangement with Mr. Shore will assist us in achieving a successful transition upon Mr. Shore's departure. In addition, upon termination without "cause," we have the right to pay Mr. Shore a lump payment representing his compensation for the notice period and terminate Mr. Shore's employment immediately.

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, 2011 was $8,474, 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, 2011, Mr. Shore would have been entitled to receive $10,967 in severance under Israeli law, thereby requiring us to pay Mr. Shore $2,493, in addition to releasing the $8,474 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.

In addition, pursuant to Mr. Shore's employment agreement, in the event of a change of control of our company, the majority of shares of our common stock or our intellectual property that results in the termination of Mr. Shore's employment within one year of such change of control, the stock options granted to Mr. Shore in accordance with the terms of his employment agreement that were unvested will vest immediately upon such termination. Furthermore, pursuant to terms contained in Mr. Shore's stock option award agreement, in the event of a change of control of our company, the stock options granted to Mr. Shore that were unvested will vest immediately upon such change of control if such stock options are not assumed or substituted by the surviving company.

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

President. Pursuant to Dr. Holzer's consultancy agreement and, we anticipate, our new employment agreement with Dr. Holzer, we possess the right to terminate his employment without "cause" (as such term is defined in the agreement) upon at least 180 days prior notice to Dr. Holzer. During such notice period, we will continue to compensate Dr. Holzer according to his agreement and Dr. Holzer will be obligated to continue to discharge and perform all of his duties and obligations under the agreement, and to cooperate with us and use his best efforts to assist with the integration of any persons that we have delegated to assume Dr. Holzer's responsibilities. We believe that this arrangement will assist us in achieving a successful transition upon Dr. Holzer's departure. Dr. Holzer is entitled to terminate his employment with us in the event that we do not fulfill our undertakings under our agreement, upon at least 30 days prior notice to us, during which time we may cure the breach. During such notice period, we will continue to compensate Dr. Holzer according to his agreement and Dr. Holzer will be obligated to continue to discharge and perform all of his duties and obligations under the agreement.

If Dr. Holzer's employment is terminated for any reason other than for cause, as a senior executive under Israeli law, he will also be entitled to severance payments equal to the total amount that has been contributed to and accumulated in his severance payment fund. The total amount accumulated in his severance payment fund as of December 31, 2011 was $1,199, as adjusted for conversion from New Israeli Shekels to U.S. Dollars.

We are entitled to terminate Dr. Holzer'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 Dr. Holzer and Dr. Holzer will not be entitled to the amount that has been contributed to and accumulated in his severance payment fund.

Also, upon termination of Dr. Holzer's employment for any reason, we will compensate him for all unused vacation days accrued.

Senior Vice President of Research and Development and Chief Technical Officer of InspireMD Ltd. Subject to certain conditions, either party to our employment agreement with Mr. Bar may terminate the employment agreement without "cause" (as such term is defined in Mr. Bar's employment agreement with us) upon at least 60 days prior written notice to the other party. During such notice period, we will continue to compensate Mr. Bar according to his employment agreement and Mr. Bar will be obligated to continue to discharge and perform all of his duties and obligations under his employment agreement, and to cooperate with us and use his best efforts to assist with the integration of any persons that we have delegated to assume Mr. Bar's responsibilities. We believe that our severance arrangement with Mr. Bar will assist us in achieving a successful transition upon Mr. Bar's departure. In addition, upon termination without "cause," we have the right to pay Mr. Bar a lump payment representing his compensation for the notice period and terminate Mr. Bar's employment immediately.

If Mr. Bar's employment is terminated without cause, Mr. Bar will also be entitled under Israeli law to severance payments equal to his last month's salary multiplied by the number of years Mr. Bar has been employed with us. In order to finance this obligation, we make monthly contributions equal to 8.33% of Mr. Bar's salary each month to a severance payment fund. The total amount accumulated in his severance payment fund as of December 31, 2011 was $57,870, as adjusted for conversion from New Israeli Shekels to U.S. Dollars. However, if Mr. Bar's employment was terminated without cause, on account of a disability or upon his death, as of December 31, 2011, Mr. Bar would be entitled to receive $65,278 in severance under Israeli law, thereby requiring us to pay Mr. Bar $7,408, in addition to releasing the $57,870 in his severance payment fund. In addition, Mr. Bar 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. Bar'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. Bar.

In addition, pursuant to terms contained in Mr. Bar's stock option award agreement, in the event of a change of control of our company, the stock options granted to Mr. Bar that were unvested will vest immediately upon such change of control if such stock options are not assumed or substituted by the surviving company. Also, upon termination of Mr. Bar's employment for any reason, we will compensate him for all unused vacation days accrued.

Vice President of Sales of InspireMD Ltd. Subject to certain conditions, either party to our consultancy agreement with Ms. Paz may terminate the agreement without "cause" (as such term is defined in her consultancy agreement) upon at least 30 days prior written notice to the other party. During such notice period, we will continue to compensate Ms. Paz according to her consultancy agreement and Ms. Paz will be obligated to continue to discharge and perform all of her duties and obligations under her consultancy agreement, and to cooperate with us and use her best efforts to assist with the integration of any persons that we have delegated to assume Ms. Paz's responsibilities. We believe that our severance arrangement with Ms. Paz will assist us in achieving a successful transition upon Ms. Paz's departure. Ms. Paz is entitled to terminate her employment with us in the event that we do not fulfill our undertakings under our agreement, upon at least 30 days prior notice to us, during which time we may cure the breach. During such notice period, we will continue to compensate Ms. Paz according to her agreement and Ms. Paz will be obligated to continue to discharge and perform all of his duties and obligations under the agreement.

In addition, pursuant to terms contained in Ms. Paz's stock option award agreement, in the event of a change of control of our company, the stock options granted to Ms. Paz that were unvested will vest immediately upon such change of control if such stock options are not assumed or substituted by the surviving company.

We are entitled to terminate Ms. Paz's employment immediately at any time for any reason, upon which we believe we will have no further obligation to compensate Ms. Paz under her consultancy agreement or Israeli law, except as provided above.

On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales and no event of termination has occurred under Ms. Paz's consulting agreement.

The following tables show, as of December 31, 2011, potential payments to our named executive officers for various scenarios involving a resignation, termination, change of control, retirement, death or disability, using, where applicable, the closing price of our common stock of $2.18 (as reported on the OTC Bulletin Board as of December 30, 2011). Compensation amounts to be paid in non-U.S. currency have been converted into U.S. dollars using 3.821 NIS per dollar, which was the exchange rate as of December 31, 2011.

Type of Event	Voluntary Resignation Upon Breach By Us	Voluntary Resignation	Termination for Cause	Termination Not for Cause	Death	Disability	Termination Not for Cause in Connection with a Change of Control	Change of Control (No Termination)
Ofir Paz								
Employment agreement payments	$20,625 (1)	$123,750(2)		$123,750 (2)	—	—	$123,750 (2)	—
Severance payments(3)	$1,199	$1,199	—	$1,199	$1,199	$1,199	$1,199	—
Accrued vacation payments(4)	$56,336	$56,336	$56,336	$56,336	$56,336	$56,336	$56,336	—
Value of accelerated options	—	—	—	—	—	—	—	—
Craig Shore								
Employment agreement payments	$12,719 (5)	$12,719 (5)	—	$12,719(5)	—	—	$76,312(2)	—
Severance payments	$8,474 (6)	$8,474 (6)	—	$10,967(7)	$10,967 (7)	$10,967 (7)	$10,967(7)	—
Accrued vacation payments(4)	$7,495	$7,495	$7,495	$7,495	$7,495	$7,495	$7,495	—
Value of accelerated options	—		—	—	—		$231,307.90(8)	$231,307.90 (9)
Asher Holzer								
Employment agreement payments	$20,895 (1)	$125,370(2)		$125,370 (2)	—	—	$125,370 (2)	—
Severance payments(3)	$1,199	$1,199	—	$1,199	$1,199	$1,199	$1,199	—
Accrued vacation payments(4)	$51,022	$51,022	$51,022	$51,022	$51,022	$51,022	$51,022	—
Value of accelerated options	—	—	—	—	—	—	—	—
Eli Bar	$25,674(10)	$25,674(10)		$25,674(10))	—	—	$25,674(10)	—

Employment agreement payments								
Severance payments	—	—	—	$65,278(7)	$65,278(7)	$65,278(7)	$65,278(7)	—
Accrued vacation payments(4)	$36,720	$36,720	$36,720	$36,720	$36,720	$36,720	$36,720	—
Value of accelerated options	—		—	—	—	—	$751,736(11)	$751,736 (11)
Sara Paz(13)								
Consultancy agreement payments	$13,852(5)	$13,852(5)	—	$13,852(5)	—	—	$13,852(5)	—
Severance payments	—	—	—	—	—	—	—	—
Accrued vacation payments	—	—	—	—	—	—	—	—
Value of accelerated options	—	—	—	—	—	—	$248,353(12)	$248,353(12)

(1) Represents total compensation for 30 days, during which we are permitted to cure our breach of the agreement. During such notice period, we will continue to compensate the officer according to his agreement and the officer will be obligated to continue to discharge and perform all of his duties and obligations under the agreement. The officer would also have the option to terminate his employment voluntarily and remain with us for 180 days, during which time we will continue to compensate the officer according to his agreement and the officer will be obligated to continue to discharge and perform all of his duties and obligations under the agreement.

(2) Represents total compensation for 180 days, during which time we will continue to compensate the officer according to his agreement and the officer will be obligated to continue to discharge and perform all of his duties and obligations under the agreement.

(3) Represents the total amount that has been contributed to and accumulated in his severance payment fund.

(4) Pursuant to Israeli law, the value of a vacation day is equal to gross salary divided by 22 working days per month.

(5) Represents total compensation for 30 days, during which time we will continue to compensate the officer according to his or her agreement and the officer will be obligated to continue to discharge and perform all of his or her duties and obligations under the agreement.

(6) Represents the total amount that has been contributed to and accumulated in his severance payment fund, to be paid pursuant to his employment agreement.

(7) Represents the total amount to be paid under Israeli law in the event of termination not for cause, calculated based upon the officer’s monthly salary as of December 30, 2011, multiplied by his years of employment with us.

(8) Represents the vesting of options to purchase 243,482 shares of our common stock, multiplied by the difference between the exercise price of $1.23 and the closing price of our common stock of $2.18 (as reported on the OTC Bulletin Board as of December 30, 2011), which shall occur upon termination of Mr. Shore’s employment within one year of a change of control.

(9) Assumes that such stock options are not assumed or substituted by the surviving company and represents the vesting of options to purchase 243,482 shares of our common stock, multiplied by the difference between the exercise price of $1.23 and the closing price of our common stock of $2.18 (as reported on the OTC Bulletin Board as of December 30, 2011).

(10) Represents total compensation for 60 days, during which time we will continue to compensate the officer according to his agreement and the officer will be obligated to continue to discharge and perform all of his duties and obligations under the agreement.

(11) Assumes that such stock options are not assumed or substituted by the surviving company and represents the sum of the vesting of options to purchase 304,353 shares of our common stock, multiplied by the difference between the exercise price of $0.001 and the closing price of our common stock of $2.18 (as reported on the OTC Bulletin Board as of December 30, 2011), the vesting of options to purchase 40,580 shares of our common stock, multiplied by the difference between the exercise price of $1.23 and the closing price of our common stock of $2.18 and the vesting of options to purchase 200,000 shares of our common stock, multiplied by the difference between the exercise price of $1.93 and the closing price of our common stock of $2.18.

(12) Assumes that such stock options are not assumed or substituted by the surviving company and represents the vesting of options to purchase 365,225 shares of our common stock, multiplied by the difference between the exercise price of $1.50 and the closing price of our common stock of $2.18 (as reported on the OTC Bulletin Board as of December 30, 2011).

(13) On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales.

Director Compensation

The following table shows information concerning the directors of InspireMD Ltd., other than Ofir Paz and Asher Holzer, through March 31, 2011.

Name	Fees Earned or Paid in Cash ($)	Option Awards(1) ($)	All Other Compensation ($)	Total ($)
David Ivry(2)	4,269	-	-	4,269
Robert Fischell(2)	5,292	-	-	5,292
Fellice Pelled (2)	4,716	-	-	4,716

(1) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to the year ended December 31, 2010, 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 Operation—Critical Accounting Policies—Share-based compensation” and Note 2—“Significant Accounting Policies” and Note 10—“Equity (Capital Deficiency)—Share Based Compensation” of the Notes to the Consolidated Financial Statements included herein.

(2) Each of David Ivry, Robert Fischell and Fellice Pelled resigned as directors of InspireMD, Ltd. on March 31, 2011. Pursuant to the terms of the directors’ vested options, the vested options expired thirty days after the directors’ resignations. However, in connection with their resignation, we granted Mr. Ivry and Mr. Pelled replacement options. As of December 31, 2011, the following directors owned the following number of outstanding options to purchase common stock: David Ivry (162,322) and Fellice Pelled (162,322).

Through March 31, 2011, other than Mr. Paz and Dr. Holzer, we previously paid each director $330 per meeting for each board meeting attended and $1,230 for each quarter served on the board of directors.

The following table shows information concerning our directors other than Mr. Paz and Dr. Holzer, during the fiscal year ended December 31, 2011.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards(1) ($)	All Other Compensation ($)	Total ($)
Sol J. Barer, Ph.D.	-	5,655,000(2)	4,783,659	-	10,438,659
Paul Stuka	-	-	111,344	-	111,344
Eyal Weinstein	-	-	27,836	-	27,836

(1) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to the year ended December 31, 2010, 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 Operation—Critical Accounting Policies—Share-based compensation” and Note 2—“Significant Accounting Policies” and Note 10—“Equity (Capital Deficiency)—Share Based Compensation” of the Notes to the Consolidated Financial Statements included herein.

(2) On November 16, 2011, in connection with his appointment as chairman of our board of directors, we issued Dr. Barer 2,900,000 shares of our common stock, all of which were immediately vested. The fair market value was $1.95 per share.

We do not currently provide cash compensation to our directors for acting as such, although we may do so in the future. We reimburse our directors for reasonable expenses incurred in connection with their service as directors. In addition, in 2011, we made the following option grants to the following directors. Each grant was made under the InspireMD, Inc. 2011 UMBRELLA Option Plan, unless otherwise noted.

Name	Shares Subject to Options	Exercise Price	Vesting Schedule	Expiration	Fair Market Value on Grant Date
Sol J. Barer, Ph.D.	1,000,000(1)(2)	$1.50	Fully vested upon grant.	September 30, 2011(3)	$1,000,255
	500,000(2)	$2.50	One-half annually in 2012 and 2013 on the anniversary of the date of grant, provided that if Dr. Barer is (i) not reelected as a director at our 2012 annual meeting of stockholders, or (ii) not nominated for reelection as a	July 11, 2021	$709,997

director at our 2012 annual meeting of stockholders, the option vests and becomes exercisable on the date of such failure to be reelected or nominated.

	1,450,000(1)(4)	$1.95	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.	November 16, 2021	$1,536,703
	725,000(1)	$1.95	Upon the date we become listed on a registered national securities exchange (such as the New York Stock Exchange, NASDAQ Stock Market, or the NYSE Amex), provided that such listing occurs on or before December 31, 2012, and provided further that Dr. Barer is still providing services to us in	November 16, 2021	$768,352

			some capacity as of such vesting date.		
	725,000(1)(4)	$1.95	Upon the date that we receive research coverage from at least two investment banks that ranked in the top 20 investment banks in terms of underwritings as of their most recently completed fiscal year, and/or leading analysts, as ranked by either the Wall Street Journal, the Financial Times, Zacks Investment Research or Institutional Investor, provided that we receive such coverage on or before December 31, 2012, and, provided further that Dr. Barer is still providing services to us in some capacity as of such vesting date.	November 16, 2021	$768,352

Paul Stuka	100,000(2)	$1.95	One-third annually in 2012, 2013 and 2014 on the anniversary of the date of grant, provided that if Mr. Stuka is (i) not reelected as a director at our 2012 annual meeting of stockholders, or (ii) not nominated for reelection as a director at our 2012 annual meeting of stockholders, the option vests and becomes exercisable on the date of such failure to be reelected or nominated.	August 8, 2021	$111,344
Eyal Weinstein	25,000(2)	$1.95	One-third annually in 2012, 2013 and 2014 on the anniversary of the date of grant, provided that if Mr. Weinstein is required to resign from the board due to medical reasons, the option vests and becomes exercisable on the date of Mr. Weinstein's resignation for	August 8, 2021	$27,836

medical
reasons.

(1) This option was issued outside the InspireMD, Inc. 2011 UMBRELLA Option Plan.

(2) This option was granted in connection with the appointment of this person to our board of directors.

(3) This option was exercised in full by Dr. Barer on September 28, 2011.

(4) This option was granted to Dr. Barer in connection with his appointment as chairman of our board of directors on November 16, 2011.

In addition to the foregoing, on November 16, 2011, in connection with his appointment as chairman of our board of directors, we issued Dr. Barer 2,900,000 shares of our common stock, all of which were immediately vested.

In addition to the foregoing, on January 30, 2012, in connection his appointment to our board of directors, we issued James Barry, Ph.D. an option to purchase 100,000 shares of our common stock, which will vest one-third annually in 2013, 2014 and 2015 on the anniversary of the date of grant, provided that if Dr. Barry is (i) not reelected as a director at our 2014 annual meeting of stockholders, or (ii) not nominated for reelection as a director at our 2014 annual meeting of stockholders, the option vests and becomes exercisable on the date of such failure to be reelected or nominated.

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.

Code of Ethics

We intend to adopt a code of ethics that applies to our officers, directors and employees, including our principal executive officer and principal accounting officer, but have not done so to date due to our relatively small size. We intend to adopt a written code of ethics in the near future. Once adopted, the full text of our code of ethics will be published 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 five business days following the date of such amendment or waiver.

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. Stuka and Weinstein and Dr. Barer, each of whom our board has determined to be financially literate and qualify as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market. 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.

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Nominating and Corporate Governance Committee. Our compensation committee is currently comprised of Messrs. Stuka and Weinstein and Dr. Barer, each of whom qualify as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market. Mr. Stuka 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.

The nominating and corporate governance committee will consider all proposed nominees for the board of directors, including those put forward by stockholders. Stockholder nominations should be in writing, addressed to the nominating and corporate governance committee in care of the secretary at InspireMD, Inc., 4 Menorat Hamaor St., Tel Aviv, Israel, 67448, in accordance with the provisions of our Amended and Restated Bylaws.

Compensation Committee. Our compensation committee is currently comprised of Messrs. Stuka and Weinstein and Dr. Barer. Mr. Weinstein is the chairman of our compensation committee. The compensation committee reviews and approves our salary and benefits policies, including compensation of executive officers. The compensation committee also administers our stock option plans and recommends and approves grants of stock options under such plans.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended December 31, 2011, Messrs. Stuka and Weinstein and Dr. Barer served on our compensation committee. We established our compensation committee during the fiscal year ended December 31, 2011. Prior to that, we did not have a compensation committee and during such period, Ofir Paz, our chief executive officer, and Asher Holzer, our president and former chairman, participated in deliberations of the board of directors concerning executive officer compensation. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

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 May 30, 2012 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. 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., 4 Menorat Hamaor St., Tel Aviv, Israel 67448. As of May 30, 2012, we had 68,178,952 shares outstanding.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage Beneficially Owned(1)
5% Owners		
Yuli Ofer (2)	4,518,301	6.6%
Genesis Capital Advisors LLC(3)	7,741,521 (4)	10.2%
Officers and Directors		
Ofir Paz	10,385,494(5)	15.2%
Asher Holzer, Ph.D.	10,300,437(6)	15.1%
Eli Bar	1,068,616(7)	1.5%
Craig Shore	121,741(8)	*
Sara Paz	10,385,494(5)	15.2%
Sol J. Barer, Ph.D. (9)	4,443,750 (10)	6.5%
James Barry, Ph.D. (11)	0	-
Paul Stuka (12)	2,000,000(13)	2.9%
Eyal Weinstein (14)	0	-
All directors and executive officers as a group (9 persons)	28,259,621	40.1%

* 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 May 30, 2012. 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) Mr. Ofer’s address is 36 Hamesila Street, Herzeliya, Israel.

(3) Genesis Capital Advisors LLC’s address is 1212 Avenue of the Americas, 19th Floor, New York, New York 10036.

(4) Comprised of (i) 395,137 shares of common stock issuable upon the exercise of a warrant held by HUG Funding LLC, (ii) 790,274 shares of common stock issuable upon the conversion of a convertible debenture held by HUG Funding LLC, (iii) 1,276,596 shares of common stock issuable upon the exercise of a warrant held by Genesis Opportunity Fund L.P., (iv) 2,553,191 shares of common stock issuable upon the conversion of a convertible debenture held by Genesis Opportunity Fund L.P., (v) 1,410,511 shares of common stock issuable upon the exercise of warrants held by Genesis Asset Opportunity Fund L.P., (vi) 1,215,806 shares of common stock issuable upon the conversion of a convertible debenture held by Genesis Asset Opportunity Fund L.P., and (vii) 100,000 shares of common stock held directly by Genesis Asset Opportunity Fund L.P. Genesis Capital Advisors LLC is the investment adviser two both Genesis Opportunity Fund L.P. and Genesis Asset Opportunity Fund L.P., and, as such,

may be deemed to beneficially own securities owned by each of Genesis Opportunity Fund L.P. and Genesis Asset Opportunity Fund L.P. Each of Genesis Capital Advisors LLC and HUG Funding LLC are controlled by Daniel Saks, Ethan Benovitz and Jaime Hartman, and, as such, Genesis Capital Advisors LLC may be deemed to beneficially own securities held by HUG Funding LLC. In addition, each of Daniel Saks, Ethan Benovitz and Jaime Hartman have shared voting and dispositive power over the securities held by HUG Funding LLC, Genesis Opportunity Fund L.P. and Genesis Asset Opportunity Fund L.P. Each of the convertible debentures and warrants held by HUG Funding LLC, Genesis Opportunity Fund L.P. and Genesis Asset Opportunity Fund L.P. have contractual provisions limiting conversion and exercise to the extent such conversion or exercise would cause the holder, together with its affiliates or members of a “group”, to beneficially own a number of shares of common stock that would exceed 4.99% or 9.99% of our then outstanding shares of common stock following such conversion or exercise. The shares and percentage ownership of our outstanding shares indicated in the table above as beneficially owned by Genesis Capital Advisors LLC do not give effect to these limitations.

(5) This amount includes options to purchase 121,742 shares of common stock that are currently exercisable within 60 days of May 30, 2012. This amount does not include 372,528 shares of common stock that Mr. Paz presently holds as trustee for a family trust. Mr. Paz does not have either voting power or dispositive power over these shares and disclaims all beneficial ownership therein. Ofir Paz and Sara Paz, as husband and wife, share voting and investment power with respect to all shares reported by either Mr. Paz or Ms. Paz. On March 27, 2012, Ms. Paz ceased to be an executive officer upon the appointment of Robert Ratini as our new head of sales and marketing, but has temporarily retained her title as vice president of sales.

(6) This amount does not include 58,923 shares of common stock that Dr. Holzer presently holds as trustee for a family trust. Dr. Holzer does not have either voting power or dispositive power over these shares and disclaims all beneficial ownership therein.

(7) Represents options that are currently exercisable or exercisable within 60 days of May 30, 2012.

(8) Represents options that are currently exercisable or exercisable within 60 days of May 30, 2012.

(9) Dr. Barer's address is 67 Park Place East, Suite 675, Morristown, NJ 07960.

(10) Comprised of (i) 3,900,000 shares of common stock and (ii) options to purchase 543,750 shares of common stock that are currently exercisable or exercisable within 60 days of May 30, 2012.

(11) Dr. Barry's address is 35 Jackson Circle, Marlborough, Massachusetts 01752.

(12) Mr. Stuka's address is c/o Osiris Partners, LLC, 1 Liberty Square, 5th Floor, Boston, MA 02109.

(13) Paul Stuka is the principal and managing member of Osiris Investment Partners, L.P., and, as such, has beneficial ownership of the (i) 1,333,333 shares of common stock and (ii) currently exercisable warrants to purchase 666,667 shares of common stock held by Osiris Investment Partners, L.P.

(14) Mr. Weinstein's address is c/o Leorlex Ltd., P.O. Box 15067 Matam, Haifa, Israel 3190.

Selling Stockholders

Up to 18,584,517 shares of common stock issuable upon the exercise of warrants and the conversion of senior secured convertible debentures are being offered by this prospectus, all of which are being registered for sale for the accounts of the selling stockholders. Each of the transactions by which the selling stockholders acquired their securities from us was exempt under the registration provisions of the Securities Act of 1933, as amended.

Each of the transactions by which the selling stockholders acquired their securities from us was exempt under the registration provisions of the Securities Act of 1933, as amended.

The shares of common stock referred to above are being registered to permit public sales of the shares, and the selling stockholders may offer the shares for resale from time to time pursuant to this prospectus. The selling stockholders may also sell, transfer or otherwise dispose of all or a portion of their shares in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, or pursuant to another effective registration statement covering those shares. We may from time to time include additional selling stockholders in supplements or amendments to this prospectus.

The table below sets forth certain information regarding the selling stockholders and the shares of our common stock offered by them in this prospectus. The selling stockholders have not had a material relationship with us within the past three years other than as described in the footnotes to the table below or as a result of their acquisition of our shares or other securities. To our knowledge, subject to community property laws where applicable, each person named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite such person’s name.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a selling stockholder and the percentage of ownership of that selling stockholder, shares of common stock underlying warrants and debentures held by that selling stockholder that are convertible or exercisable, as the case may be, within 60 days of May 30, 2012 are included. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other selling stockholder. Each selling stockholder's percentage of ownership of our outstanding shares in the table below is based upon 68,178,952 shares of common stock outstanding as of May 30, 2012. With respect to the debentures and warrants held by the selling stockholders, there exist contractual provisions limiting conversion and exercise to the extent such conversion or exercise would cause such selling stockholder, together with its affiliates or members of a "group," to beneficially own a number of shares of common stock which would exceed 4.99% or 9.99% of our then outstanding shares of common stock following such conversion or exercise. The shares and percentage ownership of our outstanding shares indicated in the table below do not give effect to these limitations.

	Ownership Before Offering		Ownership After Offering	
Selling Stockholder	Number of shares of common stock beneficially owned	Number of shares offered (1)	Number of shares of common stock beneficially owned	Percentage of common stock beneficially owned
Platinum Partners Value Arbitrage Fund LP (2)	3,435,000(3)	900,000	2,535,000(4)	3.7%
Osiris Investment Partners, L.P. (5)	2,000,000(6)	600,000	1,400,000(7)	2.1%
Allan Pasternack	50,000(8)	15,000	35,000(9)	*
Leon Frenkel	200,000(10)	60,000	140,000(11)	*
CNH Diversified Opportunities Master Account, L.P. (12)	10,698(13)	3,209	7,489(14)	*
Advanced Series Trust – AST Academic Strategies Asset Allocation Portfolio (15)	17,664(16)	5,299	12,365(17)	*
AQR Opportunistic Premium Offshore Fund, L.P. (18)	17,904(19)	5,371	12,533(20)	*
AQR Funds – AQR Diversified Arbitrage Fund (21)	203,734(22)	61,120	142,614(23)	*
Joseph Kazarnovsky	360,000(24)	108,000	252,000(25)	*
Fame Associates (26)	250,000(27)	75,000	175,000(28)	*
American European Insurance Co. (29)	300,000(30)	90,000	210,000(31)	*
Harborview Value Master Fund L.P. (32)	625,000(33)	165,000	460,000(34)	*
The Corbran LLC (35)	1,452,529(36)	625,000	827,259(37)	1.2%
David Stefansky (38)	1,771,197(39)	745,000	1,026,147(40)	1.5%
Endicott Management Partners, LLC (41)	2,775,492(42)	1,325,000	200,492(43)	*
Ralph Rieder	80,000(44)	24,000	56,000(45)	*

Harmony Finance Holdings Ltd. (46)	100,000(47)	30,000	70,000(48)	*
Alan Kneller	15,000(49)	4,500	10,500(50)	*
Alpha Capital Anstalt (51)	1,025,000(52)	300,000	725,000(53)	1.1%
Fortis Business Holdings, LLC (54)	100,000(55)	30,000	70,000(56)	*
Gedalya Shai	50,000(57)	15,000	35,000(58)	*
Sandor Capital Master Fund, L.P. (59)	492,000(60)	135,000	357,000(61)	*
Lev Michael	40,000(62)	12,000	28,000(63)	*
Shmuel and Serena Fuchs Foundation (64)	115,000(65)	30,000	85,000(66)	*
RPSMSS, LLC (67)	325,000(68)	90,000	235,000(69)	*
Petr Gukovskiy	200,000(70)	60,000	140,000(71)	*
LR Holdings Associates (72)	50,000(73)	15,000	35,000(74)	*
Seth Padowitz	36,000(75)	10,800	25,200(76)	*
Gary and Jane Klopfer	400,000(77)	120,000	280,000(78)	*
Ronald A. Durando	25,000(79)	7,500	17,500(80)	*
Palladium Capital Advisors, LLC (81)	258,842(82)	248,915	9,927(83)	*
Reinder Hogeboom	50,000(84)	15,000	35,000(85)	*
Moishe Hartstein (86)	294,205(87)	264,784	29,421(88)	*
Abraham Biderman	8,500(89)	7,650	850(90)	*
Jeffrey Frank	3,315(91)	2,983	332(92)	*
The Benchmark Company, LLC (93)	46,340(94)	45,456	884(95)	*
William Odenthal	22,445(96)	21,450	995(97)	*
Cato Capital LLC (98)	6,667(99)	6,000	667(100)	*
Eisenberg Family Foundation (101)	216,666(102)	165,000	51,666(103)	*
Hermitage Capital Management (104)	6,667(105)	6,667	0	-
Arvest Privatbank AG (106)	160,526(107)	160,526	0	-
Harborview Master Fund, L.P. (108)	51,366(109)	51,366	0	-
Genesis Asset Opportunity Fund LP (110)	2,796,529(111)	2,796,529	0	-
Genesis Opportunity Fund LP (112)	4,187,234(113)	4,187,234	0	-
HUG Funding LLC (114)	1,296,049(115)	1,296,049	0	-
Ayer Capital Partners Master Fund, L.P. (116)	3,246,602(117)	3,246,602	0	-
Ayer Capital Partners Kestrel Fund, LP (118)	64,304(119)	64,304	0	-
Epworth – Ayer Capital (120)	178,456(121)	178,456	0	-

Oppenheimer & Co. Inc. (122)	113,070(123)	113,070	0	-
JMP Securities LLC (124)	39,666(125)	39,666	0	-

*Less than 1%
(1) Number of shares offered represents number of shares of common stock issuable upon the exercise of a warrant
(2) Platinum Management (NY) LLC is the general partner of Platinum Partners Value Arbitrage Fund LP. Platinum Partners Value Arbitrage Fund LP has sole voting and dispositive power over the securities held for the account of this selling stockholder. Mark Nordlicht has the sole voting and investment power over the securities beneficially owned or that may be purchased by Platinum Partners Value Arbitrage Fund LP.
(3) Includes 1,000,000 shares of common stock issuable upon the exercise of warrants.
(4) Includes 100,000 shares of common stock issuable upon the exercise of warrants.
(5) Paul Stuka, Principal and Managing Member, has voting and dispositive power over the securities held for the account of this selling stockholder. Mr. Stuka disclaims beneficial ownership of these securities.
(6) Includes 666,667 shares of common stock issuable upon the exercise of warrants.
(7) Includes 66,667 shares of common stock issuable upon the exercise of warrants.
(8) Includes 16,667 shares of common stock issuable upon the exercise of warrants.
(9) Includes 1,667 shares of common stock issuable upon the exercise of warrants.
(10) Includes 66,667 shares of common stock issuable upon the exercise of warrants.
(11) Includes 6,667 shares of common stock issuable upon the exercise of warrants.
(12) CNH Partners, LLC, as the advisor of CNH Diversified Opportunities Master Account, L.P., has voting and dispositive power over the securities held for the account of this selling stockholder. CNH Partners, LLC is controlled indirectly by Todd Pulvino and Mark Mitchell, and accordingly, both Mr. Pulvino and Mr. Mitchell may each be deemed to share voting and dispositive power over the securities owned by CNH Diversified Opportunities Master Account, L.P.
(13) Includes 3,566 shares of common stock issuable upon the exercise of warrants.
(14) Includes 357 shares of common stock issuable upon the exercise of warrants.
(15) Advanced Series Trust — AST Academic Strategies Asset Allocation Portfolio is an affiliate of Prudential Investment Management Services LLC and Prudential Annuities Distributors, Inc., both of whom are broker-dealers registered under Section 15 of the Exchange Act. CNH Partners, LLC, as the sub-advisor of Advanced Series Trust — AST Academic Strategies Asset Allocation Portfolio, has discretionary voting and dispositive power over the securities held for the account of this selling stockholder. CNH Partners, LLC is controlled indirectly by Todd Pulvino and Mark Mitchell, and accordingly, both Mr. Pulvino and Mr. Mitchell may be deemed to share voting and dispositive power over the securities owned by Advanced Series Trust — AST Academic Strategies Asset Allocation Portfolio. These securities were purchased by Advanced Series Trust — AST Academic Strategies Asset Allocation Portfolio in the ordinary course of business, and at the time of the time of transfer, Advanced Series Trust — AST Academic Strategies Asset Allocation Portfolio had no agreements or understandings directly or indirectly with any person to distribute the shares of common stock underlying this warrant.
(16) Includes 5,888 shares of common stock issuable upon the exercise of warrants.
(17) Includes 589 shares of common stock issuable upon the exercise of warrants.
(18) CNH Partners, LLC, as the sub-advisor of AQR Opportunistic Premium Offshore, L.P., has discretionary voting and dispositive power over the securities held for the account of this selling stockholder. CNH Partners, LLC is controlled indirectly by Todd Pulvino and Mark Mitchell, and accordingly, both Mr. Pulvino and Mr. Mitchell may be deemed to share voting and dispositive power over the securities owned by AQR Opportunistic Premium Offshore Fund, L.P.
(19) Includes 5,968 shares of common stock issuable upon the exercise of warrants.
(20) Includes 597 shares of common stock issuable upon the exercise of warrants.
(21) CNH Partners, LLC, as the sub-advisor of AQR Funds — AQR Diversified Arbitrage Fund, has discretionary voting and dispositive power over the securities held for the account of this selling stockholder. CNH Partners, LLC is controlled indirectly by Todd Pulvino and Mark Mitchell, and accordingly, both Mr. Pulvino and Mr. Mitchell may be deemed to share voting and dispositive power over the securities owned by AQR Funds — AQR Diversified Arbitrage Fund.
(22) Includes 67,911 shares of common stock issuable upon the exercise of warrants.

(23) Includes 6,791 shares of common stock issuable upon the exercise of warrants.
(24) Includes 120,000 shares of common stock issuable upon the exercise of warrants.
(25) Includes 12,000 shares of common stock issuable upon the exercise of warrants.

(26) Abraham Fruchthandler, general partner of Fame Associates, has sole voting and dispositive power over the securities held for the account of this selling stockholder.
(27) Includes 83,333 shares of common stock issuable upon the exercise of warrants.
(28) Includes 8,333 shares of common stock issuable upon the exercise of warrants.
(29) Nachum Stein has sole voting and dispositive power over the securities held for the account of this selling stockholder.
(30) Includes 100,000 shares of common stock issuable upon the exercise of warrants.
(31) Includes 10,000 shares of common stock issuable upon the exercise of warrants.
(32) Harborview Advisors LLC is the general partner of Harborview Value Master Fund, L.P. Richard Rosenblum and David Stefansky are the managers of Harborview Advisors LLC and have shared voting and dispositive power over the securities held by Harborview Value Master Fund, LP. Mr. Rosenblum and Mr. Stefansky disclaim beneficial ownership of such securities.
(33) Includes 183,333 shares of common stock issuable upon the exercise of warrants.
(34) Includes 18,333 shares of common stock issuable upon the exercise of warrants.
(35) Richard Rosenblum exercises sole voting and dispositive power over the securities held for the account of this selling stockholder. The Corbran LLC provided us with advisory consulting services in connection with the structuring of our share exchange transactions. In consideration for such services, we issued The Corbran LLC a five-year warrant to purchase up to 625,000 shares of common stock at an exercise price of $1.50 per share.
(36) Includes 625,000 shares of common stock issuable upon the exercise of warrants.
(37) Includes no shares of common stock issuable upon the exercise of warrants.
(38) David Stefansky provided us with advisory consulting services in connection with the structuring of our share exchange transactions. In consideration for such services, we issued David Stefansky a five-year warrant to purchase up 625,000 shares of common stock at an exercise price of $1.50 per share.
(39) Includes 758,333 shares of common stock issuable upon the exercise of warrants.
(40) Includes 13,333 shares of common stock issuable upon the exercise of warrants.
(41) Ken Londoner exercises sole voting and dispositive power over the securities held for the account of this selling stockholder. Endicott Management Partners, LLC provided us with advisory consulting services in connection with the structuring of our share exchange transactions. In consideration for such services, we issued Endicott Management Partners, LLC a five-year warrant to purchase up to 1,250,000 shares of common stock at an exercise price of $1.50 per share.
(42) Includes 1,333,333 shares of common stock issuable upon the exercise of warrants and 93,000 shares of common stock held by Ken Londoner.
(43) Includes 8,333 shares of common stock issuable upon the exercise of warrants and 93,000 shares of common stock held by Ken Londoner.
(44) Includes 26,667 shares of common stock issuable upon the exercise of warrants.
(45) Includes 2,667 shares of common stock issuable upon the exercise of warrants.
(46) Independent Management Inc., as the sole director of Harmony Finance Holdings Ltd., has discretionary voting and dispositive power over the securities held for the account of this selling stockholder. Independent Management Inc. is controlled by Sean Breslin and Meral Baruh, who may be deemed to have voting and dispositive power over the securities held for the account of this selling stockholder.
(47) Includes 33,333 shares of common stock issuable upon the exercise of warrants.
(48) Includes 3,333 shares of common stock issuable upon the exercise of warrants.
(49) Includes 5,000 shares of common stock issuable upon the exercise of warrants.
(50) Includes 500 shares of common stock issuable upon the exercise of warrants.

(51) Konrad Ackemann exercises sole voting and dispositive power over the securities held for the account of this selling stockholder.
(52) Includes 333,333 shares of common stock issuable upon the exercise of warrants.
(53) Includes 33,333 shares of common stock issuable upon the exercise of warrants.
(54) Louis, Joel, and Sarah Kestenbaum have voting power of Fortis Business Holdings, LLC. Louis Kestenbaum, Margaret Kestenbaum, Joel Kestenbaum, and Sarah Rosenfeld also claim beneficial ownership of Fortis Business Holdings, LLC's shares.
(55) Includes 33,333 shares of common stock issuable upon the exercise of warrants.
(56) Includes 3,333 shares of common stock issuable upon the exercise of warrants.
(57) Includes 16,667 shares of common stock issuable upon the exercise of warrants.
(58) Includes 1,667 shares of common stock issuable upon the exercise of warrants.
(59) John S. Lemak, as manager of this security holder, has voting and dispositive power over the securities held for the account of this selling stockholder and may be deemed to be the beneficial owner of these securities.
(60) Includes 150,000 shares of common stock issuable upon the exercise of warrants.
(61) Includes 15,000 shares of common stock issuable upon the exercise of warrants.
(62) Includes 13,333 shares of common stock issuable upon the exercise of warrants.
(63) Includes 1,333 shares of common stock issuable upon the exercise of warrants.
(64) The Shmuel & Serena Fuchs Foundation is a charitable trust and the trustees are Bernard and Hanna Fuchs.
(65) Includes 33,333 shares of common stock issuable upon the exercise of warrants.
(66) Includes 3,333 shares of common stock issuable upon the exercise of warrants.
(67) Richard P. Stadtmauer exercises sole voting and dispositive power over the securities held for the account of this selling stockholder.
(68) Includes 100,000 shares of common stock issuable upon the exercise of warrants.
(69) Includes 10,000 shares of common stock issuable upon the exercise of warrants.
(70) Includes 66,667 shares of common stock issuable upon the exercise of warrants.
(71) Includes 6,667 shares of common stock issuable upon the exercise of warrants.
(72) Leslie Rieder and Samuel J. Rieder have voting and dispositive power over the securities held for the account of this selling stockholder.
(73) Includes 16,667 shares of common stock issuable upon the exercise of warrants.
(74) Includes 1,667 shares of common stock issuable upon the exercise of warrants.
(75) Includes 12,000 shares of common stock issuable upon the exercise of warrants.
(76) Includes 1,200 shares of common stock issuable upon the exercise of warrants.
(77) Includes 133,333 shares of common stock issuable upon the exercise of warrants.
(78) Includes 13,333 shares of common stock issuable upon the exercise of warrants.
(79) Includes 8,333 shares of common stock issuable upon the exercise of warrants.
(80) Includes 833 shares of common stock issuable upon the exercise of warrants.
(81) Palladium Capital Advisors LLC is a registered broker-dealer. Joel Padowitz is the CEO of Palladium Capital Advisors LLC and, in such capacity, may be deemed to have voting and dispositive power over the securities held for the account of this selling stockholder. On July 18, 2010, we engaged Palladium Capital Advisors LLC to serve as our placement agent in connection with our March 31, 2011 and April 18, 2011 private placements. In connection with such private placements, we paid Palladium Capital Advisors LLC a fee of $757,170, expenses reimbursement of $15,000 and we issued it a five-year warrant to purchase 430,740 shares of our common stock, at an initial exercise price of $1.80 per share. Palladium Capital Advisors LLC served as one of our placement agents in connection with our private placement on April 5, 2012 and was paid a placement agent fee of $262,500 and was issued a five-year warrant to purchase up to 159,574 shares of common stock at an exercise price of $1.80 per share.
(82) All 258,842 shares of common stock issuable upon the exercise of warrants.
(83) All 9,927 shares of common stock issuable upon the exercise of warrants.
(84) Includes 16,667 shares of common stock issuable upon the exercise of warrants.
(85) Includes 1,667 shares of common stock issuable upon the exercise of warrants.

(86) Moishe Hartstein is an affiliate of Palladium Capital Advisors LLC, a registered broker-dealer. These securities were transferred to Mr. Hartstein by Palladium Capital Advisors LLC in the ordinary course of business, and at the time of the time of transfer, Mr. Hartstein had no agreements or understandings directly or indirectly with any person to distribute the shares of common stock underlying this warrant.
(87) All 294,205 shares of common stock issuable upon the exercise of warrants.
(88) All 29,421 shares of common stock issuable upon the exercise of warrants.
(89) All 8,500 shares of common stock issuable upon the exercise of warrants.
(90) All 850 shares of common stock issuable upon the exercise of warrants.

(91) All 3,315 shares of common stock issuable upon the exercise of warrants.
(92) All 332 shares of common stock issuable upon the exercise of warrants.
(93) The Benchmark Company, LLC is a registered broker-dealer. Mr. Adam Gordon and Mr. Richard Messina share voting and investment power over these securities. On March 31, 2011, we engaged The Benchmark Company, LLC to provide financial advisory services and other investment banking services to us for a period of six months. In connection with this engagement, we issued to The Benchmark Company, LLC 50,000 restricted shares of our common stock and a five-year warrant to purchase 50,000 shares of our common stock, at an initial exercise price of $1.50 per share and we are obligated to pay The Benchmark Company LLC a monthly fee of $8,000 and aggregate expenses over the period of the engagement not to exceed $10,000.
(94) All 46,340 shares of common stock issuable upon the exercise of warrants.
(95) All 884 shares of common stock issuable upon the exercise of warrants.
(96) All 22,445 shares of common stock issuable upon the exercise of warrants. Includes 12,500 of common stock issuable upon the exercise of warrants in the name of William Odenthal and Lisa Odenthal
(97) All 995 shares of common stock issuable upon the exercise of warrants.
(98) Solomon Lax has voting and dispositive power over the securities held for the account of this selling stockholder.
(99) All 6,667 shares of common stock issuable upon the exercise of warrants.
(100) All 667 shares of common stock issuable upon the exercise of warrants.
(101) Solomon Eisenberg has voting and dispositive power over the securities held for the account of this selling stockholder.
(102) Includes 183,333 shares of common stock issuable upon the exercise of warrants.
(103) Includes 18,333 shares of common stock issuable upon the exercise of warrants.
(104) Daniel Escapa is the officer of Hermitage Holdings LLC, formerly known as Hermitage Capital Management. Hermitage Capital Management provided us with advisory consulting services in connection with our share exchange transactions. In consideration for such services, we issued Hermitage Capital Management a five-year warrant to purchase up to 6,667 shares of common stock at an exercise price of $1.80 per share.
(105) All 6,667 shares of common stock issuable upon the exercise of warrants.
(106) Stefan Kimmel exercises sole voting and dispositive power over the securities held for the account of this selling stockholder.
(107) All 160,526 shares of common stock issuable upon the exercise of warrants.
(108) Harborview Advisors LLC is the general partner of Harborview Master Fund, L.P. Richard Rosenblum and David Stefansky are the managers of Harborview Advisors LLC and have shared voting and dispositive power over the securities held by Harborview Master Fund, LP. Mr. Rosenblum and Mr. Stefansky disclaim beneficial ownership of such securities.
(109) All 51,366 shares of common stock issuable upon the exercise of warrants.
(110) Genesis Capital Advisors LLC is the investment manager of Genesis Asset Opportunity Fund LP. Each of Ethan Benovitz, Daniel Saks and Jaime Hartman are managing members of Genesis Capital Advisors LLC and share voting and dispositive power over the securities held by Genesis Asset Opportunity Fund LP. Each of Ethan Benovitz, Daniel Saks and Jaime Hartman disclaim beneficial ownership of such securities.
(111) Includes 1,410,511 shares of common stock issuable upon the exercise of warrants and 1,386,018 shares of common stock issuable upon conversion of debentures.
(112) Genesis Capital Advisors LLC is the investment manager of Genesis Opportunity Fund LP. Each of Ethan Benovitz, Daniel Saks and Jaime Hartman are managing members of Genesis Capital Advisors LLC and share voting and dispositive power over the securities held by Genesis Opportunity Fund LP. Each of Ethan Benovitz, Daniel Saks and Jaime Hartman disclaim beneficial ownership of such securities.
(113) Includes 1,276,596 shares of common stock issuable upon the exercise of warrants and a maximum of 2,910,638 shares of common stock issuable upon conversion of debentures.
(114) Each of Ethan Benovitz, Daniel Saks and Jaime Hartman are managing members of HUG Funding LLC and share voting and dispositive power over the securities held by HUG Funding LLC. Each of Ethan Benovitz, Daniel Saks and Jaime Hartman disclaim beneficial ownership of such securities.

(115) Includes 395,137 shares of common stock issuable upon the exercise of warrants and 900,912 shares of common stock issuable upon conversion of debentures.

(116) Ayer Capital Management, LP is the investment manager of Ayer Capital Partners Master Fund, L.P. Jay Venkatesan is the managing member of the general partner of Ayer Capital Management, LP and has voting and dispositive power over the securities held by Ayer Capital Partners Master Fund, L.P. Jay Venkatesan disclaims beneficial ownership of such securities.
(117) Includes 989,818 shares of common stock issuable upon the exercise of warrants and 2,256,784 shares of common stock issuable upon conversion of debentures.
(118) Ayer Capital Management, LP is the investment manager of Ayer Capital Partners Kestrel Fund, LP. Jay Venkatesan is the managing member of the general partner of Ayer Capital Management, LP and has voting and dispositive power over the securities held by Ayer Capital Partners Kestrel Fund, LP. Jay Venkatesan disclaims beneficial ownership of such securities.
(119) Includes 19,605 shares of common stock issuable upon the exercise of warrants and 44,699 shares of common stock issuable upon conversion of debentures.
(120) Ayer Capital Management, LP is the investment manager of Epworth-Ayer Capital. Jay Venkatesan is the managing member of the general partner of Ayer Capital Management, LP and has voting and dispositive power over the securities held by Epworth-Ayer Capital. Jay Venkatesan disclaims beneficial ownership of such securities.
(121) Includes 54,407 shares of common stock issuable upon the exercise of warrants and 124,049 shares of common stock issuable upon conversion of debentures.
(122) Albert G. Lowenthal is the chairman and chief executive officer of Oppenheimer & Co, Inc. and as such has voting and dispositive power over the securities held by Oppenheimer & Co, Inc. Oppenheimer & Co, Inc. served as one of our placement agents in connection with our private placement on April 5, 2012 and was paid a placement agent fee of $434,000 and was issued a five-year warrant to purchase up to 113,070 shares of common stock at an exercise price of $1.80 per share.
(123) All 113,070 shares of common stock issuable upon the exercise of warrants.
(124) Joseph A. Jolson is the chief executive officer of JMP Securities LLC and as such has voting and dispositive power over the securities held by JMP Securities LLC. JMP Securities LLC served as one of our placement agents in connection with our private placement on April 5, 2012 and was paid a placement agent fee of $152,250 and was issued a five-year warrant to purchase up to 39,666 shares of common stock at an exercise price of $1.80 per share.
(125) All 39,666 shares of common stock issuable upon the exercise of warrants.

Certain Relationships and Related Party Transactions

On March 31, 2011, in connection with our share exchange transactions with the former shareholders of InspireMD Ltd. and succession to InspireMD Ltd.’s business as our sole line of business, we transferred all of our pre-share exchange operating assets and liabilities to Saguaro Holdings, Inc., a Delaware corporation and our wholly owned subsidiary. Immediately after this transfer, we transferred all of Saguaro Holdings, Inc.’s outstanding capital stock to Lynn Briggs, our then-majority stockholder and our former president, chief executive officer, chief financial officer, secretary-treasurer and sole director, in exchange for the cancellation of 7,500,000 shares of our common stock held by Ms. Briggs.

In accordance with the Company’s 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.

The share exchange transactions were not approved by our audit committee, because such committee had not yet been formed.

Description Of Securities

We have authorized 130,000,000 shares of capital stock, par value $0.0001 per share, of which 125,000,000 are shares of common stock and 5,000,000 are shares of “blank check” preferred stock. On May 30, 2012, there were 68,178,952 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding.

On October 31, 2011, our stockholders authorized our board of directors to amend our amended and restated certificate of incorporation to effect a reverse stock split of our common stock at a ratio of one-for-two to one-for-four, at any time prior to our 2012 annual stockholders' meeting, the exact ratio of the reverse stock split to be determined by the board. As of the date of this prospectus, we have not effected the reverse stock split and, as such, the information with respect to our common stock in this prospectus and the accompanying financial statements and related notes does not give effect to any reverse stock split. . In addition, pursuant to the securities purchase agreement under which the convertible debentures that we issued on April 5, 2012 were sold, until April 5, 2013, we are not premitted to effectuate any reverse stock splits without the prior written consent of the holders of at least 60% of the outstanding principal amount of the convertible debentures other than for purposes of qualifying for initial listing on a national securities exchange or meeting the continued listing requirements of such exchange.

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. 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.

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.

Warrants

April 2012 $1.80 Warrants

On April 5, 2012, we issued certain investors warrants to purchase an aggregate of 3,343,465 shares of our common stock at an exercise price of $1.80 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 within 60 days of the issuance of the warrants, the holders of such warrants have the right to exercise the warrants by means of a cashless exercise. The warrants are also subject to a "most favored nation" adjustment pursuant to which, in the event that we issue or are deemed to have issued certain securities with terms that are superior to those of the holders of the warrants, except with respect to exercise

price and warrant coverage, the terms of such superior issuance shall automatically be incorporated into the warrants. 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 for a purchase price in cash equal to the Black-Scholes value (as calculated pursuant to the warrants) of the then unexercised portion of the warrants. 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 159,574 shares of common stock at an exercise price of $1.80 per share, Oppenheimer & Co. Inc. a five-year warrant to purchase up to 113,070 shares of common stock at an exercise price of $1.80 per share and JMP Securities, LLC a five-year warrant to purchase up to 39,666 shares of common stock at an exercise price of $1.80 per share. The terms of these warrants are identical to the April 2012 $1.80 Warrants described above.

March 2011 $1.80 Warrants

On March 31, 2011 and on April 18, 2011, we issued certain investors five-year warrants to purchase up to an aggregate of 3,560,332 shares of common stock at an exercise price of $1.80 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. 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 the one year anniversary of the original issuance date of such 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, then the holders of such warrants have the right to exercise the warrants by means of a cashless exercise. In addition, if (i) the volume-weighted average price of our common stock for 20 consecutive trading days is at least 250% of the exercise price of the warrants; (ii) the 20-day average daily trading volume of our common stock has been at least 175,000 shares; (iii) a registration statement providing for the resale of the common stock issuable upon exercise of the warrants is effective and (iv) the common stock is listed for trading on a national securities exchange, then we may require each holder to exercise all or a portion of its warrant pursuant to the terms described above within seven business days following the delivery of a notice of acceleration. Any warrant that is not exercised as aforesaid shall expire automatically at the end of such seven-day period.

April 2011 $1.80 Warrants

On April 18 and April 21, 2011, we issued certain investors five-year warrants to purchase up to an aggregate of 158,334 shares of common stock at an exercise price of $1.80 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. 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 addition, if (i) the volume-weighted average price of our common stock for 20 consecutive trading days is at least 250% of the exercise price of the warrants; (ii) the 20-day average daily trading volume of our common stock has been at least 175,000 shares; and (iii) a registration statement providing for the resale of the common stock issuable upon exercise of the warrants is effective, then we may require each holder to exercise all or a portion of its warrant pursuant to the terms described above within three business days following the delivery of a notice of acceleration. Any warrant that is not exercised as aforesaid shall expire automatically at the end of such three-day period.

March 2011 Placement Agent Warrant

As consideration for serving as our placement agent in connection with certain private placements, we have issued Palladium Capital Advisors, LLC a five-year warrant to purchase up to 430,740 shares of common stock at an exercise price of $1.80 per share. The terms of this warrant are identical to the March 2011 $1.80 Warrants described above.

Employee Warrants

On March 31, 2011, for work performed in connection with the share exchange transactions and as bonus compensation, we issued Craig Shore, our chief financial officer, secretary and treasurer, a five-year warrant to purchase up to 3,000 shares of common stock at an exercise price of $1.80 per share. The terms of this warrant are identical to the April 2011 $1.80 Warrants described above.

Consultant Warrants

In connection with our March 31, 2011 private placement, we issued to Hermitage Capital Management, a consultant, a five-year warrant to purchase up to 6,667 shares of common stock at an exercise price of $1.80 per share, in consideration for consulting services. The terms of this warrant are identical to the April 2011 $1.80 Warrants described above.

In consideration for financial consulting services, we issued to The Benchmark Company, LLC, a consultant, a five-year warrant to purchase up to 50,000 shares of common stock at an exercise price of $1.50 per share. The terms of this warrant are identical to the April 2011 $1.80 Warrants described above, except that the exercise price for this warrant is $1.50 per share.

On March 31, 2011, we issued certain consultants five-year warrants to purchase up to an aggregate of 2,500,000 shares of common stock at an exercise price of $1.50 per share. The terms of these warrants are identical to the March 2011 $1.80 Warrants described above, except that the exercise price for these $1.50 warrants is $1.50 per share.

$1.23 Warrants

In connection with our share exchange transactions on March 31, 2011, we issued certain investors warrants to purchase up to an aggregate of 1,014,500 shares of our common stock at an exercise price of $1.23 per share. These warrants may be exercised any time on or before July 20, 2013 and were issued in exchange for warrants to purchase up to 125,000 ordinary shares of InspireMD Ltd. at an exercise price of $10 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 9.99% 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. 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 there is no effective registration statement registering, or no current prospectus available for, the resale of the shares of common stock underlying the warrants, then the holders of such warrants have the right to exercise the warrants by means of a cashless exercise. In addition, if at any time following the one year anniversary of the original issuance date of the warrants, (i) our common stock is listed for trading on a national securities exchange, (ii) the closing sales price of our common stock for 15 consecutive trading days is at least 165% of the exercise price of the warrants; (iii) the 15 day average daily trading volume of our common stock has been at least 150,000 shares and (iv) a registration statement providing for the resale of the common stock issuable upon exercise of the warrants is effective, then we may require each investor to exercise all or a portion of its warrant pursuant to the terms described above at any time upon at least 15 trading days prior written notice. Any warrant that is not exercised as aforesaid shall expire automatically at the end of the 15-day notice period.

Convertible Debentures

On April 5, 2012, we issued senior secured convertible debentures to certain accredited investors in the original aggregate principal amount of $11,702,128 and at an original issue discount of 6%. The convertible debentures mature on April 5, 2014, or such earlier date as required or permitted by the convertible debentures, upon which date the entire outstanding principal balance and any outstanding fees or interest will be due and payable in full. The convertible debentures bear interest at the rate of 8% per annum, payable quarterly beginning on July 1, 2012, which rate is increased to 12% upon and during the occurrence of an event of default. In addition, the convertible debentures are convertible at the option of the holders into shares of our common stock at an initial conversion price of $1.75 per share, subject to adjustment for stock splits, fundamental transactions or similar events. In converting the convertible debentures, investors shall receive a conversion premium equal to 8%, per annum, of the principal amount being converted. The convertible debentures provide that no conversion may be made if, after giving effect to the conversion, the holder thereof would own in excess of 4.99% of our outstanding common stock (subject to an increase, upon at least 61 days' notice by the holder of such warrant to us, of up to 9.99%). We may also force conversion of the convertible debentures if, amongst other things, the closing bid price on our common stock equals or exceeds 165% of the conversion price for twenty consecutive trading days, the minimum daily trading volume for such period is $1,100,000, all of the shares of common stock underlying the convertible debentures during such period are either registered for resale with the Securities and Exchange Commission or eligible for sale pursuant to Rule 144 and there is no existing event of default or event which, with the passage of time or the giving of notice, would constitute an event of default during such period.

Commencing 18 months following the original issuance date of the convertible debentures, the investors may require us to redeem all or a portion of the convertible debentures, for a price equal to 112% of the amount of principal to be redeemed plus all accrued but unpaid interest and other amounts due under the convertible debentures.

Commencing 6 months following the original issuance date of the convertible debentures, we may redeem all or a portion of the convertible debentures for a price equal to 112% of the amount of principal to be redeemed plus all accrued but unpaid interest and other amounts due under the convertible debentures.

The convertible debentures are senior indebtedness and the holders of the convertible debentures have a security interest in all of our assets and those of our subsidiaries. In addition, if, while the convertible debentures are outstanding, we issue any evidences of indebtedness, assets, rights or warrants to subscribe for or purchase any of our securities, then the holder of a convertible debenture shall, upon conversion, have the right to acquire the same securities as if it had converted such convertible debenture 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 our common stock are to be determined for the participation in such distribution.

Registration Rights

On April 5, 2012, in connection with our private placement of convertible debentures and warrants, we entered into a registration rights agreement with the purchasers pursuant to which we agreed to provide certain registration rights with respect to the common stock issuable upon conversion of the convertible debentures and exercise of the warrants. Specifically, we agreed to file a registration statement with the Securities and Exchange Commission covering the resale of the common stock issuable upon conversion of the convertible debentures and exercise of the warrants on or before May 21, 2012 and to cause such registration statement to be declared effective by the Securities and Exchange Commission on or before July 9, 2012 in the event that the registration statement is not reviewed by the Securities and Exchange Commission and by August 8, 2012 in the event that the registration statement is reviewed by the Securities and Exchange Commission and the Securities and Exchange Commission issues comments.

If (i) the registration statement is not filed by May 21, 2012, (ii) the registration statement is not declared effective by the Securities and Exchange Commission by July 9, 2012 in the case of a no review, (iii) the registration statement is not declared effective by the Securities and Exchange Commission by August 8, 2012 in the case of a review by the Securities and Exchange Commission pursuant to which the Securities and Exchange Commission issues comments or (iv) the registration statement ceases to remain continuously effective for more than 30 consecutive calendar days or more than an aggregate of 60 calendar days during any 12-month period after its first effective date, then we are subject to liquidated damage payments to the holders of the shares sold in the private placement in an amount equal to 1% of the aggregate purchase price paid by such purchasers per month of delinquency. Notwithstanding the foregoing, (i) the maximum aggregate liquidated damages due under the registration rights agreement shall be 6% of the aggregate purchase price paid by the purchasers, and (ii) if any partial amount of liquidated damages remains unpaid for more than seven days, we shall pay interest of 18% per annum, accruing daily, on such unpaid amount.

Pursuant to the registration rights agreement, we must maintain the effectiveness of the registration statement from the effective date until the date on which all securities registered under the registration statement have been sold, or are otherwise able to be sold pursuant to Rule 144 without volume or manner-of-sale restrictions, subject to the our right to suspend or defer the use of the registration statement in certain events.

Lock-up Agreements

On April 5, 2012, in connection with our private placement of convertible debentures and warrants, our executive officers and directors entered into lock-up agreements pursuant to which they agreed not to offer, sell, pledge or otherwise transfer or dispose of any of their shares of our common stock or securities convertible into our common stock for a period of 30 days following the effectiveness of the registration statement to be filed pursuant to the registration rights agreement discussed above, subject to the approval of Oppenheimer & Co. Inc.

Delaware Anti-Takeover Law and 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.

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 authorized for quotation on the Nasdaq Stock Market 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.

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.

Disclosure of Commission Position on Indemnification for Securities Act Liabilities

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to our directors, officers and persons controlling us, we have been advised that it is the Securities and Exchange Commission's opinion that such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

Plan Of Distribution

Each selling stockholder of the securities and any of its pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their securities covered hereby on the OTC Bulletin Board or any other stock exchange, market or trading facility on which the securities are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling stockholder may use any one or more of the following methods when selling securities:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

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block trades in which the broker-dealer will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;

- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- in transactions through broker-dealers that agree with the selling stockholders to sell a specified number of such securities at a stipulated price per security;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell securities under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of securities, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the securities or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the securities in the course of hedging the positions they assume. The selling stockholders may also sell securities short and deliver these securities to close out their short positions, or loan or pledge the securities to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or create one or more derivative securities which require the delivery to such broker-dealer or other financial institution of securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the securities may be deemed to be “underwriters” within the meaning of the Securities Act of 1933, as amended, in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. Each selling stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the securities. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

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We are required to pay certain fees and expenses that we have incurred incident to the registration of the securities. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, as amended.

Because selling stockholders may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, they will be subject to the prospectus delivery requirements of the Securities Act of 1933, as amended, including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act of 1933, as amended, may be sold under Rule 144 rather than under this prospectus. The selling stockholders have advised us that there is no underwriter or coordinating broker acting in connection with the proposed sale of the resale securities by the selling stockholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the securities may be resold by the selling stockholders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144 under the Securities Act of 1933, as amended, or any other rule of similar effect or (ii) all of the securities have been sold pursuant to this prospectus or Rule 144 under the Securities Act of 1933, as amended, or any other rule of similar effect. The resale securities will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale securities covered hereby may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Securities Exchange Act of 1934, as amended, any person engaged in the distribution of the resale securities may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of securities of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act of 1933, as amended).

Legal Matters

Haynes and Boone, LLP, New York, New York, will pass upon the validity of the shares of our common stock offered by the selling stockholders under this prospectus.

Experts

Our consolidated balance sheets as of December 31, 2010 and 2011 and the related consolidated statements of operations, changes in equity (capital deficiency) and cash flows for each of the years in the three-year period ended December 31, 2011 included in this prospectus have been audited by Kesselman & Kesselman, Certified Public Accountants, a member of PricewaterhouseCoopers International Limited, an independent registered public accounting firm, as stated in its report appearing in the registration statement, and are included in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

Where You Can Find Additional Information

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, together with any amendments and related exhibits, under the Securities Act of 1933, as amended, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock that the selling stockholders are offering in this prospectus.

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Our Securities and Exchange Commission filings are available to the public over the Internet at the Securities and Exchange Commission's website at http://www.sec.gov. You may also read and copy any document we file at the Securities and Exchange Commission's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. In addition, through our website, http://www.inspire-md.com, you can access electronic copies of documents we file with the Securities and Exchange Commission, including our Quarterly Report on Form 10-Q, and Current Reports on Form 8-K and any amendments to those reports. Information on our website is not incorporated by reference in this prospectus. Access to those electronic filings is available as soon as practicable after filing with the Securities and Exchange Commission. You may also request a copy of those filings, excluding exhibits, from us at no cost. Any such request should be addressed to us at: 4 Menorat Hamaor St., Tel Aviv, Israel 67448, Attention: Ofir Paz, Chief Executive Officer.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
CONSOLIDATED FINANCIAL STATEMENTS

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The amounts are stated in US dollars in thousands

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of
InspireMD Inc.

We have audited the accompanying consolidated balance sheets of InspireMD Inc. (the "Company") and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity (capital deficiency) and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO"). The Company's Board of Directors and management are responsible for these financial statements, for maintaining effective internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting" appearing under Item 9(A). Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations, changes in equity (capital deficiency) and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company

maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

Tel Aviv, Israel
March 13, 2012

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers International Limited

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
CONSOLIDATED BALANCE SHEETS
(US dollars in thousands)

	December 31	
	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$5,094	$636
Restricted cash	91	250
Accounts receivable:		
Trade	2,284	852
Other	118	75
Prepaid expenses	72	3
Inventory:		
On hand	2,061	1,704
On consignment	110	371
Total current assets	9,830	3,891
PROPERTY, PLANT AND EQUIPMENT, net	420	282
NON-CURRENT ASSETS:		
Deferred debt issuance costs		15
Fund in respect of employee rights upon retirement	215	167
Total non-current assets	215	182
Total assets	$10,465	$4,355

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

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
CONSOLIDATED BALANCE SHEETS
(US dollars in thousands)

	December 31	
	2011	2010
LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		
CURRENT LIABILITIES:		
Current maturities of long-term loan	$94	$355
Accounts payable and accruals :		
Trade	814	1,103
Other	2,217	1,509
Advanced payment from customers	316	559
Loans from shareholders		20
Deferred revenues		398
Total current liabilities	3,441	3,944
LONG-TERM LIABILITIES:		
Long term loan		75
Liability for employees rights upon retirement	270	206
Convertible loan		1,044
Total long-term liabilities	270	1,325
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
Total liabilities	3,711	5,269
EQUITY (CAPITAL DEFICIENCY):		
Common stock, par value $0.0001 per share; 125,000,000 shares authorized; 68,178,946 and 49,863,801 shares issued and outstanding at December 31, 2011 and 2010, respectively	7	5
Additional paid-in capital	43,388	21,057
Accumulated deficit	(36,641)	(21,976)
Total equity (capital deficiency)	6,754	(914)
Total liabilities and equity (less capital deficiency)	$10,465	$4,355

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

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS
(US dollars in thousands, except per share data)

	Year ended December 31		
	2011	2010	2009
REVENUES	$6,004	$4,949	$3,411
COST OF REVENUES	3,011	2,696	2,291
GROSS PROFIT	2,993	2,253	1,120
OPERATING EXPENSES:			
Research and development	2,474	1,338	1,330
Selling and marketing	1,973	1,236	1,040
General and administrative (including $8,542, $869, $65 of share based compensation for the years ended December 31, 2011, 2010 and 2009, respectively)	12,275	2,898	1,467
Total operating expenses	16,722	5,472	3,837
LOSS FROM OPERATIONS	(13,729)	(3,219)	(2,717)
FINANCIAL EXPENSES (INCOME), net	934	154	(40)
LOSS BEFORE TAX EXPENSES	(14,663)	(3,373)	(2,677)
TAX EXPENSES	2	47	47
NET LOSS	$(14,665)	$(3,420)	$(2,724)
NET LOSS PER SHARE - basic and diluted	$(0.24)	$(0.07)	$(0.06)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN COMPUTING NET LOSS PER SHARE - basic and diluted	61,439,700	49,234,528	47,658,853

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

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)

	Ordinary shares				
	Number of shares	Par value	Additional paid-in capital	Accumulated deficit	Total equity (capital deficiency)
			US dollars in thousands		
BALANCE AT JANUARY 1, 2009	47,061,936	$5	$ 15,961	$ (15,832)	$134
CHANGES DURING 2009:					
Net loss				(2,724)	(2,724)
Exercise of options by employees	458,722	*	*		*
Employee and non-employee share-based compensation expenses			594		594
Redemption of beneficial conversion feature of convertible loan			(308)		(308)
Issuance of ordinary shares, net of $44 issuance cost	817,722	*	965		965
BALANCE AT DECEMBER 31, 2009	48,338,380	5	17,212	(18,556)	(1,339)
CHANGES DURING 2010:					
Net loss				(3,420)	(3,420)
Employee and non-employee share-based compensation expenses			1,640		1,640
Issuance of warrants, net of $23 issuance costs			424		424
Issuance of ordinary shares, net of $97 issuance costs	1,525,421	*	1,781		1,781
BALANCE AT DECEMBER 31, 2010	49,863,801	5	21,057	(21,976)	(914)
CHANGES DURING 2011:					
Net loss				(14,665)	(14,665)
Employee and non-employee share-based compensation expenses	2,993,785	1	11,605		11,606
Issuance of shares and warrants, net of $2,835 issuance costs	12,992,269	1	7,653		7,654
Issuance of ordinary shares, net of $185 issuance costs	802,866	*	805		805
Exercise of options by employee	1,000,000	*	1,500		1,500
Conversion of convertible loans	526,225	*	768		768
BALANCE AT DECEMBER 31, 2011	68,178,946	$7	$ 43,388	$ (36,641)	$6,754

* Represents an amount less than $1

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

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US dollars in thousands)

	Year ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(14,665)	$(3,420)	$(2,724)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation of property, plant and equipment	89	91	89
Loss from sale of property, plant and equipment	15		
Change in liability for employees right upon retirement	58	42	42
Financial expenses (income)	897	94	(224)
Share-based compensation expenses	9,590	1,620	562
Loss (gains) on amounts funded in respect of employee rights upon retirement, net	8	(11)	(10)
Changes in operating asset and liability items:			
Decrease (increase) in prepaid expenses	(69)	36	(32)
Decrease (increase) in trade receivables	(1,432)	337	(969)
Decrease (increase) in other receivables	(50)	9	(27)
Decrease in inventory on consignment	261	722	330
Increase in inventory on hand	(357)	(758)	(241)
Increase (decrease) in trade payables	(371)	196	612
Decrease in deferred revenues	(398)	(1,577)	(507)
Increase (decrease) in other payable and advance payment from customers	421	(91)	1,554
Net cash used in operating activities	(6,003)	(2,710)	(1,545)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in restricted cash	159	52	(272)
Purchase of property, plant and equipment	(139)	(81)	(34)
Proceeds from sale of property, plant and equipment	41		4
Amounts funded in respect of employee rights upon retirement, net	(48)	(17)	(44)
Net cash provided (used) in investing activities	13	(46)	(346)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares and warrants, net of issuance costs of $1,014, $78 and $11 in the years ended December 31, 2011, 2010 and 2009, respectively	10,564	2,245	976
Exercise of options	1,500		
Proceeds from long-term loan, net of $41 issuance costs			419
Proceeds from convertible loan at fair value through profit or loss, net of $60 issuance costs		1,073	
Repayment of long term loan	(375)	(281)	
Repayment of loans from shareholders	(20)		(20)
Repayment of convertible loans	(1,000)		(720)
Net cash provided by financing activities	10,669	3,037	655
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(221)	(21)	41
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,458	260	(1,195)

BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	636	376	1,571
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	$5,094	$636	$376
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Taxes on income paid	$37	$56	$-
Interest paid	$24	$30	$88
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES -			
Receivables on account of shares	$-	$-	$20
Conversion of convertible loan into shares	$668	$-	$-
Purchasing of property, plant and equipment in credit and in consideration of share based payment	$144	$-	$-

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

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

InspireMD, Inc., formerly Saguaro Resources, Inc., (hereafter - the "Company"), a public company, is a Delaware corporation formed on February 29, 2008. On March 28, 2011, the Company changed its name to InspireMD, Inc.

On December 29, 2010, the Company entered into a Share Exchange Agreement (hereafter - the "Exchange Agreement") by and among the Company and InspireMD Ltd., a limited company incorporated under the laws of the State of Israel in April 2005. Subsequent to the date of execution of the Exchange Agreement, shareholders of InspireMD, Ltd., holding 91.7% of InspireMD Ltd.'s issued and outstanding ordinary shares, executed a joinder to the Exchange Agreement and became parties thereto (hereafter - the "InspireMD Shareholders"). Pursuant to the Exchange Agreement, on March 31, 2011, the InspireMD Shareholders transferred all of their ordinary shares in InspireMD Ltd. to the Company in exchange for 46,471,907 newly issued shares of common stock of the Company (hereafter - the "Initial Share Exchange"). In addition, the remaining holders of InspireMD Ltd.'s ordinary shares separately transferred all of their ordinary shares of InspireMD Ltd. to the Company, in exchange for an aggregate of 4,194,756 newly issued shares of common stock of the Company (hereafter - the "Follow Up Share Exchange" and, together with the Initial Share Exchange, the "Share Exchange"). As a result of the Share Exchange, InspireMD Ltd. became a wholly owned subsidiary of the Company.

The Share Exchange is being accounted for as a reverse recapitalization, equivalent to the issuance of stock by InspireMD Ltd., for the net monetary assets of the Company. Accordingly, the historical financial statements of the Company reflect the historical operations and financial statements of InspireMD Ltd.

The Company, together with its subsidiaries, is a medical device company focusing on the development and commercialization of its proprietary stent platform technology, MGuard™. MGuard™ provides embolic protection in stenting procedures by placing a micron mesh sleeve over a stent. The Company's initial products 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.

In addition, the Company operates in Germany through its wholly-owned subsidiary InspireMD GmbH, a German limited liability company incorporated in November 2007, where the Company subcontracts the manufacturing of its stents.

Management of the Company believes that funds available at December 31, 2011, together with anticipated cash flows, will fund the Company's operations through the second quarter of 2013. Thereafter, to fund operations or to expand the breadth of the Company's present business, it will need to raise further capital, through the sale of additional equity securities or otherwise. Future capital requirements and the adequacy of its available funds will depend on many factors, including its ability to successfully commercialize its MGuardTM products, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement its product offerings. However, the Company may be unable to raise sufficient additional capital when needed or raise capital on favorable terms. The terms of any securities issued by the Company in future financings may be more favorable to new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of our securities then outstanding. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly, possibly postpone or halt our US

Food and Drug Administration clinical trial or obtain funds by entering into financing agreements on unattractive terms.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Accounting principles

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (hereafter - “US GAAP”).

b. Use of estimates

The preparation of financial statements in conformity with US 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 revenue recognition including provision for returns, legal contingencies, estimation of the fair value of share-based compensation and estimation of the fair value of a convertible loan.

c. Functional currency

The currency of the primary economic environment in which the operations of the Company and its subsidiaries are conducted is the US dollar (hereafter - “$” or “dollar”). Accordingly, the functional currency of the Company and of the subsidiaries is the 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.

d. 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.

e. 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.

f. Restricted cash

The Company maintains certain cash amounts restricted as to withdrawal or use, related to long-term loan and credit cards. Restricted cash is denominated in US dollars and New Israel Shekel (hereafter - “NIS”).

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. 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, cash equivalents and restricted cash, which are deposited in major financial institutions in United States of America (hereafter - "US"), 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, generally, 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. To mitigate risks the Company deposits cash and cash equivalents with high credit quality financial institutions.

Provisions for doubtful debts are netted against "Accounts receivable-trade."

h. Inventory

Inventories include finished goods, work in process and raw materials. 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 the Company's inventories and when, in the Company's opinion, factors indicate that impairment has occurred, the Company establishes a reserve against the inventories' carrying value. The Company's determination that a valuation reserve might be required, in addition to the quantification of such reserve, requires management to utilize significant judgment. To date, inventory adjustments have not been material. In respect to inventory on consignment, see Note 2(k).

i. 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, five years for vehicles 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.

j. Impairment of property, plant and equipment

The Company reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) of the Property, plant and equipment is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets would be written down to their estimated fair values.

To date, the Company has not recorded any impairment charges relating to its property, plant and equipment.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

k. 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 when product returns can be reliably estimated. When product returns can be reliably estimated a provision is recorded, based on historical experience, and deducted from revenues. The provision for sales returns and related costs are included in “Accounts payable and accruals - other” under “current liabilities”, and “Inventory on consignment”, respectively.

When returns cannot be reliably estimated, both related revenues and costs are deferred, and presented under "Deferred revenues" and "Inventory on consignment", respectively.

As of December 31, 2011, there is no deferred revenue in the balance sheet since, as of this date, the rate of returns can be reliably estimated.

The Company’s revenue arrangements may contain delivery of free products upon the achievement of sales targets. Each period, the Company estimates the amount of free products these distributors will be entitled based upon the expected achievement of sales targets and deferrers a portion of revenues accordingly.

The Company recognizes revenue net of value added tax (VAT).

l. Research and development costs

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

m. 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, which is 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.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The Company accounts for equity instruments issued to third party service providers (non-employees), by recording the fair value of the options granted using an option pricing model, at each reporting period, until rewards are vested in full. The expense is recognized over the vesting period using the accelerated multiple option approach.

However, when the expense relates to options granted to third parties as consideration for introducing investors to the Company, (hereafter - “Finder's services”) the expense is recorded at its fair value in Equity, as issuance costs.

In addition, certain share-based awards of the Company are performance based and dependent upon achieving certain goals. In 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 the shares which are expected to vest.

n. 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 second step is applied, under which the tax benefit is measured as the largest amount that is more than 50% likely of being 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 and penalties related to unrecognized tax benefits within financial expenses.

o. 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 additional tax liability in the event of intercompany dividend distributions by its subsidiary. 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 when this can be facilitated in connection with a specific tax opportunity that may arise.

Taxes which would apply in the event of disposal of investments in the 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, this investment.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Advertising

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred. Advertising expenses for the years ended December 31, 2011, 2010 and 2009 were $400, $467 and $275 thousand, respectively.

q. 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 ordinary shares outstanding during the year. The calculation of diluted net loss per share excludes potential ordinary shares as the effect is anti-dilutive. Potential ordinary shares are comprised of incremental ordinary shares issuable upon the exercise of share options, warrants and convertible loans.

For the years ended December 31, 2011, 2010 and 2009, all outstanding options, warrants and convertible loan have been excluded from the calculation of the diluted loss per share since their effect was anti-dilutive. The total number of ordinary shares related to outstanding options, warrants and convertible loans excluded from the calculations of diluted loss per share were 21,626,451, 9,502,111 and 5,877,388 for the years ended December 31, 2011, 2010 and 2009, respectively.

r. Segment reporting

The Company has one operating and reportable segment.

s. Factoring of receivables

During the years ended December 31, 2011 and 2010, the Company entered into factoring agreements amounting to $1,200 and $942 thousand, respectively with certain banking institutions on a non-recourse basis. The factoring of trade receivables under these agreements were accounted for as sales. Under the terms of these factoring agreements, the Company transferred ownership of eligible trade receivables without recourse to the respective banking institutions in exchange for cash. Proceeds on the transfers reflect the face value of the account less a discount. The discounts, amounting to $12 and $37 thousand during the years ended December 31, 2011 and 2010, respectively were recorded to “Financial expenses - net” within the Consolidated Statements of Operations.

The receivables sold pursuant to these factoring agreements are excluded from trade receivables on the Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Consolidated Statements of Cash Flows. The banking institution had no recourse to the Company’s assets for failure of debtors to pay when due.

The related commissions on the sales of trade receivables sold under these factoring agreements amounting to $23 and $4 thousand during the years ended December 31, 2011 and 2010, respectively were recorded to “Financial expenses – net” within the Consolidated Statements of Operations.

INSPIREMD, INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. 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.

u. Recently issued accounting guidance not yet adopted

Fair Value Measurement

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs (hereafter - “ASU 2011-04”). ASU 2011-04 changes certain fair value measurement principles and clarifies the application of existing fair value measurement guidance. These amendments include, among others, (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity’s shareholders’ equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy.

For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011 on a prospective basis. The Company will adopt ASU 2011-04 on January 1, 2012. The Company does not expect ASU 2011-04 to have a material effect on its consolidated financial statements.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUE MEASURMENT

a. The convertible loan (Note 6a) was initially recorded at a fair value of $1,133 thousand, and subsequently remeasured at fair value, with a decrease in fair value of $89 thousand, which is included in the profit and loss as of December 31, 2010. During 2011 it was subsequently remeasured at fair value, with the increase in fair value of $624 included in the Consolidated Statements of Operations as of December 31, 2011. This security was measured at fair value on a recurring basis and classified in the "Significant Unobservable inputs" (Level 3) category.

b. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities 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 carrying amount of the Company’s other financial long-term assets and other financial long-term liabilities approximate their fair value.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT:

a. Composition of assets, grouped by major classifications, is as follows:

	December 31	
	2011	2010
	($ in thousands)	
Cost:		
Vehicles	$-	$44
Computer equipment	123	75
Office furniture and equipment	56	54
Machinery and equipment	597	416
Leasehold improvements	47	47
	823	636
Less - accumulated depreciation and amortization	(403)	(354)
Net carrying amount	$420	$282

b. Depreciation and amortization expenses totaled approximately $89, $91 and $89 thousand for the years ended December 31, 2011, 2010 and 2009, respectively.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - 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 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 in respect of these employees.

The severance pay liability of the Company for the rest of its 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 make withdrawals from the amounts funded for the purpose of paying severance pay. The severance pay expenses were $155, $114 and $78 thousand in the years ended December 31, 2011, 2010 and 2009, respectively.

Defined contribution plan expenses were $197, $90 and $82 in the years ended December 31, 2011, 2010 and 2009, respectively. Gain (loss) on amounts funded in respect of employee rights upon retirement totaled to $(8), $11 and $10 thousand for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company expects contribution plan expenses in 2012 to be approximately $323 thousand.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CONVERTIBLE LOANS

a. In July 2010, InspireMD Ltd. entered into a Securities Purchase Agreement, pursuant to which InspireMD Ltd. issued (i) 8% Senior Convertible Debentures in the principal amount of $1.58 million (hereafter - the "Debentures") and (ii) three year warrants to purchase up to 1,014,513 shares of common stock at an exercise price of $1.23 per share (as adjusted for the Share Exchange) (hereafter - "the Warrants") in exchange for aggregate gross proceeds of $1.58 million (hereafter, the “Convertible Debenture Transaction”). The Debentures accrued interest at the annual rate of 8% and were payable on the later of (i) two months following receipt by InspireMD Ltd. of a tax ruling from the Israeli Tax Authority that the issuance of shares of a US “shell company” in exchange for securities held by shareholders and option holders of InspireMD Ltd. would constitute a deferred tax event for InspireMD Ltd and/or its security holders or (ii) the six month anniversary of the issuance of the Debentures (the “Original Maturity Date”); provided however, that so long as the Company was not in default under the Debentures, InspireMD Ltd. had the right to extend the maturity date of the Debentures to nine months following the Original Maturity Date (the “Second Maturity Date”).

If InspireMD Ltd. completed a qualified financing in connection with a reverse merger prior to the Original Maturity Date, or the Second Maturity Date, if applicable, the holders of the Debentures had the option to convert the Debentures into shares of common stock of the surviving corporation at $1.50 per share or be repaid in cash.

In addition, provided that there was not an event of default, if InspireMD Ltd. completed a financing for at least $3 million prior to the Second Maturity Date, the Debentures would automatically convert into ordinary shares of InspireMD Ltd. at a 15% discount to the pricing of the new financing.

Finally, if an event of default had not occurred, and any Debenture was not previously converted, following the Second Maturity Date, such Debenture would automatically convert into ordinary shares of InspireMD Ltd. (i) if InspireMD Ltd. completed a financing for at least $3 million prior to the one year anniversary of the Second Maturity Date at a 15% discount to the pricing of the new financing or (ii) or if InspireMD Ltd. did not complete a financing for at least $3 million prior to the one year anniversary of the Second Maturity Date, at $10 per ordinary share.

Upon an event of default under the Debentures, the holders had the right to demand payment of all then unpaid principal and accrued but unpaid interest under the Debentures.

The Company elected to apply the fair value option regarding the debentures in accordance with Topic 825 (i.e. the Debenture will be measured at each balance sheet date at fair value and the changes in its fair value will be recorded in profit and loss). See Note 3.

The proceeds from the Convertible Debenture Transaction were allocated to the Debentures at their fair value with the residual proceeds ascribed to the Warrants as follows:

Debenture at fair value - $1,133 thousand.

Warrants - $447 thousand, net of $23 thousand direct transaction costs.

The issuance of the Warrants was recorded in the “Additional paid-in capital,” net of $23 thousand direct transaction costs allocated to the Warrants.

On March 31, 2011, holders of the Debentures surrendered $667,596 of outstanding principal and interest due under such Debentures in exchange for shares of common stock and warrants as part of the Company's private placement on such date (hereafter - the "Debt Conversions") as described in Note 10.

As a result of the Debt Conversions, there was $1 million of unpaid principal outstanding under the Debentures on March 31, 2011, which was repaid by the Company in May 2011, plus all accrued interest thereon.

b. On January 4, 2011, InspireMD Ltd. entered into a convertible loan agreement with its distributor in Israel (hereafter - the "Lender"), in the amount of $100 thousand subject to the following conditions:

- the convertible loan did not bear annual interest;

- in the event of a share exchange or similar transaction, the Lender would have, at its sole discretion, the option to convert the loan into either (i) shares of the Company's common stock at a price of $1.23 per share ($10 as relates to InspireMD Ltd.), or (ii) the Company's product at a price of 400 euro per unit (which represents the market price for the Lender);

- in the event that the Company did not close a share exchange or similar transaction by June 1, 2011, the Lender had the right to extend the loan and its terms for up to an additional 6 months (as noted in Note 1, the Exchange Agreement was closed on March 31, 2011); and

- in no event was cash required to be repaid by the Company.

On June 1, 2011, the Lender surrendered $100 thousand of the convertible loan in exchange for 81,161 shares of common stock of the Company.

c. In April 2008, InspireMD Ltd. entered into a convertible loan agreement with certain lenders. Under this agreement the lenders were issued convertible notes in the aggregate principal amount of $720 thousand, bearing annual interest of 10%, in exchange for $720 thousand. While the notes did not bear a maturity date, they were repayable on demand upon an event of default.The notes were convertible, at any time, into ordinary shares of InspireMD Ltd. at the option of the holders.

The notes were automatically convertible into ordinary shares of InspireMD Ltd. if InspireMD Ltd. completed a financing that resulted in at least $1 million (hereafter - "qualified financing"), at the lower conversion price of: (i) $1.48; or (ii) a discount of 30% on the price per share in such Qualified Financing.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CONVERTIBLE LOANS (continued):

The notes were also automatically convertible into ordinary shares of InspireMD Ltd. upon an initial public offering (hereafter – "IPO") or upon a consolidation, merger or sale of all assets or shares of InspireMD Ltd. (hereafter - "exit transaction"), at the lower conversion price of: (i) $1.48; or (ii) a discount of 20% on the price per share in such exit transaction.

In accordance with ASC 470-20, "Debt with Conversion and Other Options", the Company determined that a beneficial conversion feature existed at the issuance date of these notes, totaling $308 thousand. Because these notes do not have a stated redemption date (except on an event of default), and may be converted by the holder at any time, the beneficial conversion feature was recognized immediately on the issuance date as a financial expense, in the consolidated statements of operations.

In March 2009 (hereafter - "the Redemption Date"), these convertible notes were fully repaid (principal and accrued interest) due to a breach of the covenants by InspireMD Ltd. InspireMD Ltd. allocated the proceeds paid between the portion related to the redemption of the beneficial conversion feature and that related to the convertible loan, based on the guidance stipulated in ASC 470-20. The Company measured the portion allocated to the beneficial conversion feature based on the intrinsic value of the conversion feature at the extinguishment date, which amounted to $308 thousand (which equals the original beneficial conversion feature since the price of InspireMD Ltd.'s shares on the issuance date and the Redemption Date was the same). Accordingly, the difference between the amount allocated to the beneficial conversion feature plus the loan's carrying amount, and the cash paid, was recognized as financial income in the consolidated statements of operations.

INSPIREMD, INC.
(FORMERLY SAGUARO RESOURCES, INC.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM LOAN

In January 2009, InspireMD Ltd. signed a loan agreement with Mizrahi Tefahot Bank.

According to the agreement InspireMD Ltd. is entitled to receive the following:

a. A loan (hereafter - the “First Loan”) amounting to $750 thousand, bearing annual interest (quarterly paid) equal to Libor + 4%. The loan is payable in eight quarterly installments beginning April 2010.

b. An additional loan (hereafter - the “Second Loan”) amounting to $750 thousand was to be received no later than August 3, 2009 and was subject to certain terms. InspireMD Ltd. did not meet the specific terms and therefore was not able to receive the second loan.

c. A credit line amounting to $500 thousand for the purpose of financing export shipments. The credit line was not utilized by the Company.

In addition, according to the loan agreement, InspireMD Ltd. has an obligation to pay an additional $250 thousand in the following events:

a. Liquidity Event of at least $100 million (as stipulated in the agreement) or

b. IPO in which the Company's valuation is at least $100 million.

InspireMD Ltd. granted to the bank a floating lien of all of its assets, as well as a fixed lien of all its intellectual property and rights of future payments from the Company’s clients. InspireMD Ltd. also committed to maintain in its bank account a minimum of $250 thousand in order to support an estimated cash burn rate of 3 months of activity based on average monthly cash flow in the preceding 3 months. This amount was recorded in the consolidated balance sheet under “Restricted cash”. In November 2010 InspireMD Ltd. was asked by the bank, pursuant to its loan agreement, to grant a fixed lien to the bank in the amount of $300 thousand that would replace the $250 thousand of restricted cash since the actual cash burn rate was higher than the cash amount maintained in the Company’s bank account. The bank effectuated the transaction in January 2011.

In March 2012, following the complete repayment of the loan, Mizrahi Tefahot Bank approved the release of the floating lien.

On July 20, 2011, Mizrahi Tefahot Bank approved the release of a fixed lien in the amount of $300 thousand. Following the approval, $300 thousand of restricted cash was classified to cash and cash equivalents.

On February 2009 InspireMD Ltd. received the First Loan and according to the loan agreement issued 234,814 ordinary shares to the bank. Subsequently, InspireMD Ltd. has estimated the fair value of the First Loan, the Second Loan, the credit line and the 234,814 ordinary shares issued to the bank using the following assumptions:

1. Discount rate of 25.13% per year calculated by using Altman-Z score model
2. Probability of realizing the second loan - 40%
3. Probability of realizing the credit line - 80%

The relative fair value of each component based on the valuation report is as follows:

1. The First Loan - $540 thousand
2. The Second Loan option - $20 thousand
3. The credit line - $59 thousand
4. The 234,814 ordinary shares issued to the bank - $290 thousand

The First Loan was subsequently measured at amortized cost on the basis of the effective interest method over the loan period.

The Second Loan option and the credit line have been recorded in the consolidated financial statements in “Financial expenses” during 2009.

The 234,814 ordinary shares were recorded as equity according to their fair market value at the time.

Direct transaction costs of $41 thousand are recorded as deferred debt issuance costs in the Consolidated Balance Sheet and amortized over the First Loan period.

As of December 31, 2011 the contractual maturity of the First Loan is $94 thousand which was paid in January 2012.

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NOTE 8 - RELATED PARTIES TRANSACTIONS:

a. In January 2009, InspireMD Ltd. signed a sub-lease agreement with a company controlled by the Company's shareholders, for a period of 12.5 months, for a monthly rent payment of $1 thousand. In 2010, the rent period was extended for an additional year, and the rent payments increased by 10%. In 2011, the rent period was extended for an additional year.

b. On May 6, 2008, InspireMD Ltd. entered into a consultancy agreement (hereafter - the “2008 Consultancy Agreement”) for marketing services with a member of the immediate family of the CEO. Pursuant to the 2008 Consultancy Agreement, InspireMD Ltd. paid a fixed hourly fee of $45 (154 NIS) in Israel and a fixed daily fee of $400 when traveling abroad with respect to the consulting services. On September 1, 2011, effective April 1, 2011, the 2008 Consultancy Agreement was terminated and InspireMD Ltd. entered into a new consultancy agreement pursuant to which the controlling shareholder would be retained to serve as the Company’s vice president of sales. Pursuant to the agreement, she would be entitled to a monthly consultancy fee of $12,500 from April 1, 2011 through June 30, 2011 and is entitled to a monthly consultancy fee of $15,500 thereafter. The 2011 Consultancy Agreement has no termination date, but may be terminated without cause by InspireMD Ltd. upon 30 days’ notice, and may be terminated with cause by InspireMD Ltd. immediately, upon the occurrence of certain events, such as a breach of fiduciary duties owed to the Company.

c. During 2007, InspireMD Ltd. received a loan of $40 thousand from its controlling shareholders. Half of the loan was paid during 2009, and the second half was paid during 2011.

d. On April 1, 2005, InspireMD Ltd. entered into employment agreements with the Company’s president and the Company’s CEO (both are shareholders). Such employment agreements were subsequently amended on October 1, 2008 (in the case of the Company’s CEO) and March 28, 2011 (in the case of the both the president and the CEO). Pursuant to these employment agreements, as amended on March 28, 2011, each officer was entitled to a monthly gross salary of $15,367. Each officer was also entitled to certain social and fringe benefits as set forth in the employment agreements, which totaled 25% of their gross salary, as well as a company car. Each officer was also entitled to a minimum bonus equivalent to three monthly gross salary payments based on achievement of objectives and board of directors’ approval. Each officer was eligible to receive stock options pursuant to his agreement following its six month anniversary, subject to board approval. If such officer’s employment was terminated with or without cause, he was entitled to at least six months’ prior notice, and would have been paid his salary and all social and fringe benefits in full during such notice period.

On April 1, 2011, the employment agreement with each of the Company's president and CEO was terminated and the Company entered into a consultancy agreement with each of the Company's president and CEO for a monthly consulting fee of $21,563 for each officer.

At the request of the compensation committee, each of the Company's CEO and president agreed, effective as of December 1, 2011, to terminate his consultancy agreement, be compensated as an employee and enter into a new employment agreement on substantially the same terms as each officer’s consultancy agreement.

e. During the second half of 2008, InspireMD Ltd. decreased the salaries for most of its employees due to the economic slowdown. InspireMD Ltd. also decreased the salaries of the president and CEO. Their salaries were decreased 25%, and an additional 25% was accrued and recorded in “Accounts payable-trade.” The accrued amounts

were fully paid as of the December 31, 2010.

In September 2009, the 25% decrease in salaries described above was cancelled.

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f. InspireMD Ltd. entered into a new license agreement to use a unique stent design developed by an American company own by a former director of InspireMD Ltd. (hereafter - "MGuard Prime"). See Note 9b.

g. Certain directors of the Company were granted options to purchase shares of the Company's common stock, see Note 10.

h. Balances with related parties:

	December 31	
	2011	2010
	($ in thousands)	
Current liabilities:		
Trade payable	$2	$3
Other accounts payable	$22	$121
Loans from shareholders		$20

i. Transactions with related parties:

	Year ended December 31		
	2011	2010	2009
	($ in thousands)		
Expenses:			
Share based compensation	$8,212	$236	$-
Salaries and related expenses	$147	$241	$152
Consulting fee	$445	$226	$194
Financial expenses			$1
Rent income	$(16)	$(15)	$(13)

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NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES:

a. Lease commitments:

1) The Company leases its current premises for a period beginning February, 2007 and ending February, 2012.

The Company signed an agreement in December 2011 to lease its future premises for a period beginning January 2012, and ending December 2014.

“Rent expense” included in the Statement of Operations totaled approximately $119, $131 and $126 thousand for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011, the aggregate future minimum lease obligations of office rent under non-cancelable operating leases agreements were as follows:

	($ in thousands)
Year Ended December 31:	
2012	$ 265
2013	250
2014	250
	$ 765

2) The Company leases the motor vehicles under non-cancelable operating lease agreements.

As of December 31, 2011, the aggregate future minimum lease obligations for motor vehicles under non-cancelable operating leases agreements were as follows:

	($ in thousands)
2012	$ 39
2013	37
2014	17
	$ 93

b. License Agreement:

In March 2010, the Company entered into a new license agreement to use a unique stent design developed by an American company owned by a former director of InspireMD Ltd. (hereafter – “MGuard Prime”). According to the agreement, the licensor is entitled to receive 7% royalties for sales outside the US and inside the US as follows: 7% royalties for the first $10 million of net sales and 10% royalties of net sales exceeding the first $10 million. The Company began manufacturing the MGuard Prime during the last quarter of 2010.

c. Fixed Lien

As of December 31, 2011 the Company had fixed liens amounting to $91 thousand to Bank Mizrahi and Bank Leumi in connection with the Company's credit cards.

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NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

d. Litigation:

The Company is a party to various claims arising in the ordinary course of its operations in the aggregate amount of $10 thousand. The Company has not recorded an expense related to damages in connection with these matters because 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 is an amount or range of loss that is estimable.

In February 2011, representatives of a third party indicated that they intend to seek damages from the Company in connection with certain finders' fees that they claim are owed to them. The claimants' demand was for approximately $1 million. The claimants' most recent settlement demand, conveyed in April 2011, was for a total of $250 thousand in cash and 250,000 shares of the company common stock. To date, no lawsuit has been filed and the Company has not accrued an expense in connection with this matter because the Company's management, after considering the views of its legal counsel as well as other factors, is of the opinion a loss to the Company is neither probable nor is an amount or range of loss that is estimable.

In March 2009, a service provider submitted a claim against the Company in the amount of $150 thousand in the Magistrate's Court in Tel Aviv, claiming a success fee for assistance in locating potential investors and lenders with respect to a loan agreement entered into with a bank. On April 11, 2011, the Company received a court ruling directing the Company to pay the service provider an amount of $105 thousand. Since both parties had claims against the court ruling, they renegotiated and on June 5, 2011, signed a settlement agreement according to which the Company paid $96 thousand and issued 18,785 shares of common stock valued at $51 thousand. The Company has recorded an expense of $147 thousand for the year ended December 31, 2011 in "General and administrative" within the Consolidated Statements of Operations.

In November 2010, a former senior employee submitted a claim against the Company in the total amount of $430 thousand and options to purchase 2,029,025 shares of the Company at an exercise price of $0.001 per share in the Magistrate's Court in Tel Aviv, claiming unpaid back wages and commissions. The fair value of those options was valued using the Black-Scholes valuation model at $2.5 million as of the period he claimed to be entitled to the options. The Company's management after considering the views of its legal counsel as well as other factors has recorded a provision of $20 thousand in the financial statements in 2009 and is of the opinion an additional loss to the Company is neither probable nor is an amount or range of loss that is estimable.

In November 2010, a former alleged founder and legal advisor of the Company submitted a claim against the Company for options to purchase 496,056 shares of the Company at an exercise price of $0.001 per share in the Magistrate's Court in Tel Aviv. The fair value of those options was estimated using the Black-Scholes valuation model at $134 thousand as of the grant date. It was during 2005 and 2006 that the Company first became aware of the events that gave rise to this litigation. Also, during this time, the Company had discussions with the plaintiffs on an informal basis. The Company's management, after considering the views of its legal counsel as well as other factors, has recorded a share-based compensation expense of $134 thousand recorded in the year ended December 31, 2006, in respect of services allegedly provided in 2005 and 2006.

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NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

In November 2010, a former legal advisor of the Company submitted in the Magistrate's Court in Tel Aviv a claim against the Company in the total amount of $53 thousand due to a breach of employment promise. It was during 2005 and 2006 that the Company first became aware of the events that gave rise to this litigation. Also during this time, the Company had discussions with the plaintiff on an informal basis. The Company's management, after considering the views of its legal counsel as well as other factors, has recorded a provision in the amounting to $53 thousand recorded in the year ended December 31, 2006.The Company, based upon the opinion of its legal counsel has recorded a provision of $53 thousand allocated to the year ended December 31, 2006.

In regards to the two claims against the Company submitted by a former alleged founder and legal advisor of the Company, in November 2010, described above, following a mediation meeting held in January 2012, the parties reached the following settlement agreement: (i) the plaintiff shall be the owner of options to purchase 194,786 shares of common stock of the Company and withdraw its claim for the remaining 301,272 options; and (ii) the Company would withdraw its counterclaim against the plaintiff. In January 2012, the District Court in Tel Aviv approved the aforesaid settlement and a corresponding judgment was given by the court. Following the aforementioned meeting held in January 2012, the parties reached a settlement agreement according to which the plaintiff would withdraw its claim in its entirety. A motion to approve such settlement was filed with the Labor Court in Tel Aviv in January 2012. Following the settlement agreement, as of December 31, 2011, the provision in the amount of $53 thousand was reversed.

In February 2011, a finder submitted a claim against the Company in the amount of $327 thousand in the Magistrate's Court in Tel Aviv, claiming a future success fee and commission for assistance in finding the Company's distributor in Brazil. The Company's management, after considering the views of its legal counsel as well as other factors, has recorded a provision of $327 thousand in the financial statements in 2011. The related expense has been recorded to "General and administrative" within the Consolidated Statements of Operations. On October 5, 2011, the Company filed a counter claim against the plaintiff in the amount of $29 thousand.

In August 2011, a former senior employee submitted to the Regional Labor Court in Tel Aviv a claim against the Company for (i) a compensation of $118 thousand; and (ii) a declaratory ruling that he is entitled to exercise 486,966 options to purchase the Company's shares of common stock at an exercise price of $0.001 per option. After consulting with its legal advisor the Company is unable to assess the probable outcome of this claim.

In November 2011, a previous finder of InspireMD Ltd. (hereafter - the "Subsidiary") submitted to the Magister Court in Tel Aviv a claim against the Company, the Subsidiary and the Company's President and CEO for a declaratory ruling that it is entitled to convert 13,650 options to purchase the Subsidiary's ordinary shares in an exercise price of $3.67 per option into 110,785 of the Company's common stock at an exercise price of $0.45 per option, and to convert 4,816 options to purchase the Subsidiary's ordinary shares in an exercise price of $10 per option into 39,087 of common stock at an exercise price of $1.23 per option. After consulting with its legal advisor the Company is unable to assess the probable outcome of this claim.

In December 2011, a statement of claim against the Company submitted by an alleged employee, regarding 584,357 options to purchase the Company's shares. The Company filed its defense in this case on March 11, 2012. After consulting the views of its legal counsel as well as other factors, the Company is unable to assess the probable outcome of this claim.

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NOTE 10 – EQUITY (CAPITAL DEFICIENCY)

a. Share capital

As of December 31, 2011 the Company has authorized 130,000,000 shares of capital stock, par value $0.0001 per share, of which 125,000,000 are shares of common stock and 5,000,000 are shares of "blank check" preferred stock.

b. Share exchange and private placement agreements and share issuance

As noted in Note 1 above, in connection with the Share Exchange, the Company issued 50,666,663 shares of its common stock in exchange for 6,242,754 ordinary shares of InspireMD Ltd., which represented all of InspireMD Ltd.'s outstanding shares, resulting in InspireMD Ltd. became a wholly owned subsidiary of the Company.

In connection with the Share Exchange, the Company also assumed all of InspireMD Ltd.'s obligations under InspireMD Ltd.'s outstanding stock options. Immediately prior to the Share Exchange, InspireMD Ltd. had outstanding stock options to purchase an aggregate of 937,256 ordinary shares, which outstanding options became options to purchase an aggregate of 7,606,770 shares of common stock of the Company after giving effect to the Share Exchange. In addition, three-year warrants to purchase up to 125,000 ordinary shares of InspireMD Ltd. at an exercise price of $10 per share were assumed by the Company and converted into warrants to purchase 1,014,500 shares of the Company's common stock at an exercise price of $1.23 per share.

In connection with the closing of the Share Exchange, the Company sold 6,454,002 shares of its common stock at a purchase price of $1.50 per share and five-year warrants to purchase up to 3,226,999 shares of common stock at an exercise price of $1.80 per share in a private placement to accredited investors (the "Private Placement").

As part of the Private Placement, certain holders of the Debentures surrendered $667,596 of outstanding principal and interest due under such Debentures in exchange for 445,064 shares of common stock and warrants to purchase an aggregate of 225,532 shares of common stock (the "Debt Conversions"). The number of shares of common stock and warrants issued in connection with the Debt Conversions are included in the aggregate figures for the Private Placement. As a result, the Company received aggregate cash proceeds of $9,013,404 in the Private Placement.

In connection with the Share Exchange, the Company also entered into a stock escrow agreement with certain stockholders, pursuant to which these stockholders deposited 1,015,622 shares of common stock held by them and warrants to purchase 832,500 shares of common stock into escrow. These shares and warrants were to be released to the Company for cancellation or surrender to an entity designated by the Company should the Company have $10 million in consolidated revenue, as certified by the Company's independent auditors, during the first 12 months following the closing of the Private Placement, yet fail, after a good faith effort, to have the Company's common stock approved for listing on a national securities exchange. If the Company failed to record at least $10 million in consolidated revenue during the first 12 months following the closing of the Private Placement or have its common stock listed on a national securities exchange within 12 months following the closing on the Private Placement, these escrowed shares were to be released back to the stockholders.

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NOTE 10 – EQUITY (CAPITAL DEFICIENCY) (continued):

As it appeared unlikely that the Company would satisfy the revenue threshold set forth above, on November 16, 2011, the Company's board of directors approved the release of the 1,015,622 shares of common stock and warrants to purchase 832,500 shares of common stock then held in escrow in order to immediately increase the Company's public float.

In connection with the Share Exchange, the Company issued certain consultants five-year warrants to purchase up to an aggregate of 2,500,000 shares of common stock at an exercise price of $1.50 per share in consideration for consulting services related to the Share Exchange, which warrants have a fair value of $1.5 million. The expenses related to the issuance of the warrants are recorded as share-based compensation and treated as issuance costs.

In connection with the Private Placement, the Company paid placement agent fees of approximately $300 thousand and issued five-year warrants to purchase 373,740 shares of the Company’s common stock at an exercise price of $1.80 per share to the placement agent for this Private Placement. The fair value of the warrants is $212 thousand.

During the first quarter of 2011 and prior to the Share Exchange, InspireMD Ltd. raised approximately $990 thousand and issued approximately 803,000 ordinary shares through private placements.

On April 18, 2011, the Company issued 666,667 shares of its common stock and five-year warrants to purchase 333,333 shares of the Company’s common stock at an exercise price of $1.80 per share, for an aggregate purchase price of $1.0 million in a private placement.

On April 18, 2011, the Company issued 283,334 shares of its common stock and five-year term warrants to purchase 141,667 shares of the Company’s common stock at an exercise price of $1.80 per share, for an aggregate purchase price of $425 thousand in a private placement.

In connection with the above-referenced transactions from April 18, 2011, the Company paid placement agent fees of approximately $471 thousand which were recorded as issuance costs and five-year term warrants to purchase 57,000 shares of the Company common stock at an exercise price of $1.80 per share to the placement agent in this private placement. The fair value of those warrants amounting to $67 thousand is estimated using the Black-Scholes valuation model.

On April 21, 2011, the Company issued 33,333 shares of its common stock, and five-year term warrants to purchase 16,667 shares of the Company’s common stock at an exercise price of $1.80 per share, for an aggregate purchase price of $50 thousand in a private placement.

On October 31, 2011, 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-two to one-for-four, such ratio to be determined by the board of directors (hereafter - the “Reverse Stock Split”), which approval will allow the board of directors to effect the Reverse Stock Split any time prior to the Company’s annual meeting of stockholders in 2012.

As of December 31, 2011, the Company had yet to effect the Reverse Stock Split.

c. 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"). Under the Umbrella Plan, the Company reserved 9,468,100 shares of the Company's common stock as awards to the employees, consultants, and service providers to the Company and its subsidiaries and affiliates worldwide. At a special meeting of stockholders of the Company held on October 31, 2011, the stockholders approved an amendment to the Umbrella Plan to add an additional 5,531,900 shares of common stock to a total of 15,000,000 shares.

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The Umbrella Plan currently consists of three components, the primary plan document that governs all awards granted under the Umbrella Plan, and two appendices: (i) Appendix A, designated for the purpose of grants of stock options and restricted stock to Israeli employees, consultants, officers and other service providers and other non-US employees, consultants, and service providers, and (ii) Appendix B, which is the 2011 US Equity Incentive Plan, designated for the purpose of grants of stock options and restricted stock awards to US employees, consultants, and service providers who are subject to the US income tax.

The Umbrella Plan is administered by the compensation committee of the board of directors. Unless terminated earlier by the board of directors, the Umbrella Plan will expire on March 27, 2021.

US federal income tax consequences relating to the transactions described under the Umbrella Plan are set forth in Section 409A, which was added to the Internal Revenue Code of 1986, as amended (hereafter - the "Code") and treasury regulations in 2004 to regulate all types of deferred compensation. If the requirements of Section 409A of the Code are not satisfied, deferred compensation and earnings thereon will be subject to tax as it vests, plus an interest charge at the underpayment rate plus 1% and a 20% penalty tax. Certain stock options and certain types of restricted stock are subject to Section 409A of the Code.

Israel income tax consequences of awards of options under the Umbrella Plan is general and does not purport to be complete. Pursuant to the current Section 102 of the 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) As of December 31, 2011, the Company had reserved 6,514,504 ordinary shares for issuance under the plans. The following table summarizes information about warrants and share options to employees:

	2011		2010		2009	
	Number of warrants and options	Weighted average exercise price	Number of warrants and options	Weighted average exercise Price	Number of warrants and options	Weighted average exercise Price
Outstanding - beginning of year	3,502,097	$0.69	2,057,430	$0.65	2,447,166	$0.53
Granted*	6,292,416	1.92	1,785,543	0.62	227,251	0.79
Forfeited	(723,489)	1.68	(340,876)	0.65	(158,264)	0.85
Exercised	(1,000,000)	1.5	-	-	(458,723)	-
Outstanding - end of year	8,071,024	$1.4	3,502,097	$0.69	2,057,430	$0.65
Exercisable at the end of the year	2,868,463	$0.71	2,204,536	$0.74	1,034,129	$0.3

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The following table summarizes information about warrants and share options to non-employees:

	2011		2010		2009	
	Number of warrants and options	Weighted average exercise price	Number of warrants and options	Weighted average exercise Price	Number of warrants and options	Weighted average exercise Price
Outstanding - beginning of year	4,697,606	$0.39	3,739,908	$0.2	3,382,142	$0.1
Granted*	3,963,322	1.48	1,079,440	1.21	357,766	1.07
Forfeited	(258,904)	0.62	(121,742)	-	-	-
Exercised	-	-	-	-	-	-
Outstanding - end of year	8,402,024	$0.98	4,697,606	$0.39	3,739,908	$0.2
Exercisable at the end of the year	8,199,858	$0.96	4,635,583	$0.4	3,439,944	$0.12

* Including 1,450,000 and 97,394 options with performance conditions to employees and non-employees, respectively, see Note 2m.

The following table provides additional information about all warrants and options outstanding and exercisable:

	Outstanding as of December 31, 2011		
Exercise price	Warrants and Options outstanding	Weighted average remaining contractual life (years)	Warrants and Options exercisable
0-0.001	3,545,783	5.09	3,205,923
0.01	-	-	-
0.183	205,012	3.64	205,012
0.188	334,545	4.23	334,545
0.45	-	-	-
0.655	149,869	-	149,869
0.99	584,357	6.26	584,357
1.23	3,855,042	4.60	3,381,606
1.5	3,175,264	4.19	2,581,161
1.725	14,608	7.00	14,608
1.75	81,161	4.42	-
1.8	490,407	4.29	490,407
1.93	255,000	4.48	-
1.95	3,227,000	9.88	120,833
2.00	40,000	4.67	-
2.1	10,000	10	-
2.5	500,000	9.53	-
2.6	5,000	4.48	-
	16,473,048	5.80	11,068,321

The weighted average of the remaining contractual life of total vested and exercisable warrants and options for the year ended December 31, 2011 is 4.41 years.

The aggregate intrinsic value of the total outstanding warrants and options as of December 31, 2011 is $16,433 thousand. The aggregate intrinsic value of the total exercisable warrants and options as of December 31, 2011 is $14,179 thousand.

The total intrinsic value of options exercised during the year ended December 31, 2011 was $800 thousand. No options were exercised during the years ended December 31, 2010 and 2009.

The total cash received from a director as a result of stock option exercise for the year ended December 31, 2011 was $1,500 thousand. See Note 10i.

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NOTE 10 – EQUITY (CAPITAL DEFICIENCY) (continued):

The weighted average fair value of warrants and options granted was approximately $0.89, $0.82 and $0.96 for the years ended December 31, 2011, 2010 and 2009, respectively. The weighted average fair value of warrants and options granted was estimated by using the Black-Scholes option-pricing model.

3) 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, 2011, 2010 and 2009:

	Year ended December 31		
	2011	2010	2009
Expected life	0.17-6.5 years	5.25-6 years	5.54-6 years
Risk-free interest rates	0.03%-2.79%	1.7%-2.69 %	1.7%-2.49 %
Volatility	55%-71 %	79%-80 %	75%-79 %
Dividend yield	0 %	0 %	0 %

The following table sets forth the assumptions that were used in determining the fair value of warrants and options granted to non-employees for the years ended December 31, 2011, 2010 and 2009:

	Year ended December 31		
	2011	2010	2009
Expected life	1-10 years	9.7-10 years	9-10 years
Risk-free interest rates	1.02%-3.39%	2.65%-3.01%	3.4%-3.59%
Volatility	53%-62 %	87 %	86%-91 %
Dividend yield	0 %	0 %	0 %

The expected term for most of the options granted - plain vanilla 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), since the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term.

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 US Federal Reserve treasury bonds as both the exercise price and the share price are in US Dollar terms. The Company’s expected volatility is derived from historical volatilities of companies in comparable stages as well as companies in the industry. Each Company’s historical volatility is weighted based on certain factors and combined to produce a single volatility factor used by the Company.

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NOTE 10 – EQUITY (CAPITAL DEFICIENCY) (continued):

4) As of December 31, 2011, the total unrecognized compensation cost on employee and non-employee stock options, related to unvested stock-based compensation amounted to approximately $4,187 thousand. This cost is expected to be recognized over a weighted-average period of approximately 1.78 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		
	2011	2010	2009
	($ in thousands)		
Cost of revenues	$350	$160	$49
Research and development	267	536	356
Sales and marketing	431	55	92
General and administrative	8,542	869	65
	$9,590	$1,620	$562

The Company recorded an amount of $1,955, $20 and $32 thousand of share based compensation in the additional paid-in capital in the years ended December 31, 2011, 2010 and 2009, respectively.

The Company recorded an amount of $62 thousand of share based compensation as part of the fixed assets in the year ended December 31, 2011.

5) On July 11, 2011, the board of directors of the Company appointed Mr. Sol J. Barer as a new director, (hereafter - "Director A"), with a term expiring at the Company's 2012 annual meeting of stockholders. In connection with his appointment, Director A was granted an option to purchase 1,000,000 shares of the Company's common stock at an exercise price of $1.50 per share, (hereafter - the "$1.50 Option"). The $1.50 Option was exercisable immediately until September 30, 2011. In calculating the fair value of options granted under share-based remuneration arrangements the Company used the following assumptions: dividend yield of 0% and expected term of 0.11 year; expected volatility of 53%; and risk-free interest rate of 0.17%.

In addition, in connection with his appointment, Director A was granted an option to purchase 500,000 shares of common stock at an exercise price of $2.50 per share, the closing price of the common stock on the date of grant (hereafter - the "$2.50 Option"), subject to the terms and conditions of the 2011 US Equity Incentive Plan, a sub-plan of the Company's 2011 new Option Plan approved on March 28, 2011 (hereafter - "2011 Umbrella Option Plan"). The $2.50 Option vests and becomes exercisable in three equal annual installments beginning on the one-year anniversary of the date of grant, provided that in the event that Director A is either (i) not reelected as a director at the Company's 2012 annual meeting of stockholders, or (ii) not nominated for reelection as a director at the Company's 2012 annual meeting of stockholders, the option vests and becomes exercisable on the date Director A fails to be reelected or nominated. The $2.50 Option has a term of 10 years from the date of grant. In calculating the fair value of options granted under share-based remuneration arrangements the Company used the following assumptions: dividend yield of 0% and expected term of 5.5-6 years in each year; expected volatility of 62%-63%; and risk-free interest rate of 1.67%-1.85%.

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NOTE 10 – EQUITY (CAPITAL DEFICIENCY) (continued):

The fair value of the options granted to the above-mentioned new director, using the Black-Scholes option-pricing model, was approximately $1.7 million.

On September 28, 2011, Director A exercised the $1.50 Option to purchase 1,000,000 shares of common stock, resulting in gross proceeds to the Company of $1.5 million.

On November 16, 2011 the Company's board of directors approved the appointment of Director A as the chairman of the board of directors. In connection with his appointment as chairman of the board of directors, the Company issued Director A 2,900,000 shares of common stock and 2,900,000 stock options to purchase shares of Common Stock at an exercise price of $1.95 per share, the closing price of the Common Stock on the date of grant. The fair value of the above granted shares is approximately $5.7 million and will be recorded as an expense in the financial statements ended December 31, 2011. In calculating the fair value of options granted under share-based remuneration arrangements the Company used the following assumptions: dividend yield of 0% and expected term of 5.5 years in each year; expected volatility of 61.6%; and risk-free interest rate of 1.07%. The options have terms of 10 years from the date of grant, and the vesting terms are as follows: tranche A vests and become exercisable in twenty four equal monthly installments, tranches B and C - vests and become exercisable upon meeting certain performance conditions. The fair value of the options granted above, using the Black-Scholes option-pricing model was approximately $3.1 million.

6) On August 5, 2011 and effective August 8, 2011, the Board appointed another two new directors (hereafter - "Director B" and "Director C"). Director B was appointed for with a term expiring at the Company's 2012 annual meeting of stockholders and Director C was appointed for a term expiring at the Company's 2013 annual meeting of stockholder. In connection with their appointment, the directors were each granted an option to purchase shares of Common Stock at an exercise price of $1.95 per share, the closing price of the Common Stock on the date of grant (hereafter - the "$1.95 Options"). The grant to Director B was for 100,000 shares and is subject to the terms and conditions of the 2011 US Equity Incentive Plan, a sub-plan of the Company's 2011 Umbrella Option Plan. The grant to Director C was for 25,000 shares and is subject to the 2006 Employee Stock Option Plan, a sub-plan of the Company's 2011 Umbrella Option Plan. The $1.95 Options vests and become exercisable in two equal annual installments beginning on the one-year anniversary of the date of grant. In the case of Director B's option, in the event that the Director B is either (i) not reelected as a director at the Company's 2012 annual meeting of stockholders, or (ii) not nominated for reelection as a director at the Company's 2012 annual meeting of stockholders, the option vests and becomes exercisable on the date of Director B's failure to be reelected or nominated. In the case of Director C's option, in the event that Director C is required to resign from the Board due to medical reasons, the option vests and becomes exercisable on the date of Director C's resignation for medical reasons. The $1.95 Options have terms of 10 years from the date of grant.

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In calculating the fair value of options granted under share-based remuneration arrangements, the Company used the following assumptions: dividend yield of 0% and expected term of 3-4 years in each year; expected volatility of 67%-70%; and risk-free interest rate of 0.45%-0.78%.

The fair value of the options granted to the above-mentioned new directors, using the Black-Scholes option-pricing model, is approximately $118,000.

In addition, on August 5, 2011, 324,644 stock options were granted to former directors at a cash exercise price of $1.23 per share replacing 324,644 stock options held by former directors that expired during the second quarter of 2011. The options had terms of five years. In calculating the fair value of options granted under share-based remuneration arrangements the Company used the following assumptions: dividend yield of 0% and expected term of 5 years; expected volatility of 62%; and risk-free interest rate of 1.23%.

The fair value of the options granted to the above-mentioned former directors, using the Black-Scholes option-pricing model is approximately $445,000.

7) During 2011, the Company entered into investor relations consulting agreements (hereafter - the “Consulting Agreements”) with investor relations companies (hereafter - the “Advisors”) to provide investor relations services. Pursuant to the Consulting Agreements, in addition to monthly fees in a range of $3,000 - $15,000, the Company issued to the Advisors:

- a one-year warrant to purchase 81,161 shares of common stock of the Company at an exercise price of $1.23 per share, valued at $21,000
- 50,000 restricted shares of the Company’s common stock, valued at $62,000, and a five-year warrant to purchase 50,000 shares of common stock of the Company at an exercise price of $1.50 per share, valued at $30,000.
- 25,000 shares of the Company’s common stock, valued at $68,750.

The Company recorded share-based compensation expenses of $181,750 related to these issuances.

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 US tax laws.

Taxation in Israel

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InspireMD Ltd. is taxed under the Israeli income tax ordinance.

On December 6, 2011, the “Tax Burden Distribution Law” Legislation Amendment (2011) was published in the Official Gazette. Under this law, the previously approved gradual decrease in the corporate tax rate was cancelled. The Corporate tax rate will increase to 25% beginning 2012.

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 15%.

INSPIREMD, INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TAXES ON INCOME (continued):

b. Tax rate applicable to the Company

Amendment of the Law for the Encouragement of Capital Investments, 1959

The Israeli Law for Encouragement of Capital Investments, 1959 (hereafter - the “law”) was amended as part of the Economic Policy Law for the years 2011-2012, which was passed in the Knesset (the Israeli parliament) on December 29, 2010 (hereafter - the “amendment”). The amendment becomes effective as from January 1, 2011.

The amendment sets alternative benefit tracks to the ones currently in place under the provisions of the Law, as follows: investment grants track designed for enterprises located in national development zone A and two new tax benefits tracks (preferred enterprise and a special preferred enterprise), which provide for application of a unified tax rate to all preferred income of the company, as defined in the amendment.

The tax rates at company level, under the law:

Years	Development Zone A		Other Areas in Israel	
"Preferred enterprise"				
2011-2012	10	%	15	%
2013-2014	7	%	12.5	%
2015 and thereafter	6	%	12	%
"Special Preferred Enterprise" commencing 2011	5	%	8	%

The benefits granted to the preferred enterprises will be unlimited in time, unlike the benefits granted to special preferred enterprises, which will be limited for a period of 10 years. The benefits shall be granted to companies that will qualify under criteria set in the amendment; for the most part, those criteria are similar to the criteria that were set in the law prior to its amendment.

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Under the transitional provisions of the amendment, an Israeli company will be allowed to continue and enjoy the tax benefits available under the law prior to its amendment until the end of the period of benefits, as defined in the law. The company will be allowed to set the "year of election" no later than tax year 2012, provided that the minimum qualifying investment commenced not later than the end of 2010. On each year during the period of benefits, the company will be able to opt for application of the amendment, thereby making available to itself the tax rates as above. Company's opting for application of the amendment is irrecoverable.

Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments Law), 1985 (“Inflationary Adjustments Law”), in Israel

Pursuant to the Israel Income Tax Law (Adjustments for Inflation), 1985 (hereinafter - the Adjustments Law), the results for tax purposes have been measured through 2007 on a real basis, based on changes in the Israel Consumer Price Index. The Company is taxed under this law.

Under the Israel Income Tax Law (Adjustments for Inflation) (Amendment No. 20), 2008 (hereinafter - the amendment), the provisions of the Adjustments Law will no longer apply to the Company in the 2008 tax year and thereafter, and therefore, the results of the Company will be measured for tax purposes in nominal terms. The amendment includes a number of transition provisions regarding the end of application of the Adjustments Law, which applied to the company through the end of the 2007 tax year.

c. Carry forward tax losses

As of December 31, 2011, InspireMD Ltd. had a net carry forward tax loss of approximately $19 million. Under Israeli tax laws, the carry forward tax losses of the InspireMD Ltd. can be utilized indefinitely. InspireMD GmbH had a net carry forward tax loss of approximately $10 thousand. Under German tax laws, the carry forward tax losses of the subsidiary can be utilized indefinitely. InspireMD, Inc. had a net carry forward tax loss of approximately $500 thousand.

d. Tax assessments

The Company and its subsidiaries have not been assessed for tax purposes since incorporation.

e. The components of loss before income taxes are as follows:

	Year ended December 31		
	2011	2010	2009
	($ in thousands)		
Profit (loss) before taxes on income:			
InspireMD, Inc.	$(7,029)	$-	$-
InspireMD Ltd.	(7,636)	(3,115)	(2,624)
InspireMD GmbH	2	(258)	(53)
	$(14,663)	$(3,373)	$(2,677)

Current taxes on income

The tax expenses in the amount of $2, $47 and $47 thousand for the years ended December 31, 2011, 2010 and 2009, respectively, are in respect of non-US operations.

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to the company in Israel (see c. above), and the actual tax expense:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TAXES ON INCOME (continued):

	Year ended December 31		
	2011	2010	2009
	($ in thousands)		
Loss before taxes on income, as reported in the statements of operations	$14,663	$3,373	$2,677
Theoretical tax benefit	(4,985)	(1,147)	(910)
Increase in tax benefit resulting from permanent differences	594	431	92
Increase in taxes on income resulting from the computation of deferred taxes at a rate which is different from the theoretical rate	(116)	62	24
Increase (decrease) in uncertain tax positions - net	(53)	30	30
Decrease in theoretical tax benefit resulting from subsidiaries different tax rate	1,385	304	214
Change in corporate tax rates, see c above	(545)	-	481
Change in valuation allowance	3,722	367	116
	$2	$47	$47

As of December 31, 2011, 2010 and 2009, the Company determines 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 allowance should be established regarding the Company's deferred tax assets.

The changes in the valuation allowance for the years ended December 31, 2011 and 2010:

	Year ended December 31	
	2011	2010
	($ in thousands)	
Balance at the beginning of the year	$3,196	$2,829
Changes during the year	3,722	367
Balance at the end of the year	$6,918	$3,196

f. Accounting for Uncertain Tax position

Following is a reconciliation of the total amounts of the Company's unrecognized tax benefits during the years ended December 31, 2011 and 2010:

	December 31	
	2011	2010
	($ in thousands)	
Balance at beginning of year	$60	$30
Increase in unrecognized tax benefits as a result of tax positions taken during the year		30
Decrease in unrecognized tax benefits as a result of tax positions taken during a prior year	(60)	
Balance at end of year	$-	$60

INSPIREMD, INC.
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NOTE 11 - TAXES ON INCOME (continued):

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
US	2008-2011
Israel	2006-2011
Germany	2008-2011

g. Deferred income tax:

	December 31	
	2011	2010
	($ in thousands)	
Short-term :		
Allowance for doubtful accounts	$37	$36
Provision for vacation and recreation pay	69	38
	106	74
Long-term :		
R&D expenses	522	531
Share based compensation	276	
Carry forward tax losses	6,000	2,582
Accrued severance pay, net	14	9
	6,812	3,122
Less-valuation allowance	(6,918)	(3,196)
	$-	$-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

	December 31		
	2011	2010	
	($ in thousands)		
a. Accounts receivable:			
1) Trade:			
Open accounts	$2,426	$998	
Allowance for doubtful accounts	(142)	(146)	
	$2,284	$852	
2) Other:			
Due to government institutions	$68	$56	*
Advance payments to suppliers	32		
Fund in respect of employee right upon retirement		8	
Other	18	11	
	$118	$75	

* The amount was subsequently paid in January 2011.

b. Inventories:

	December 31	
	2011	2010
	($ in thousands)	
Finished goods	$741	$957
Work in process	1,044	573
Raw materials and supplies	276	174
	$2,061	$1,704

c. Inventory on consignment

The changes in inventory on consignment during the years ended December 31, 2011 and 2010 are as follows:

As of December 31, 2011 and 2010 Inventory on consignment included an amount of $110 thousand and $371 thousand, respectively related to products sales for which product returns could not be reliably estimated with the remainder relating to products sales for which returns were reliably estimated.

	Year ended December 31	
	2011	2010
	($ in thousands)	
Balance at beginning of year	$371	$1,093
Costs of revenues deferred during the year	110	326

Costs of revenues recognized during the year	(371)	(1,048)
Balance at end of year	$110	$371

INSPIREMD, INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

d. Accounts payable and accruals - others:

	December 31	
	2011	2010
	($ in thousands)	
Employees and employee institutions	$376	$375
Accrued vacation and recreation pay	271	147
Accrued expenses	1,267	632
Due to government institutions	3	100
Liability for employees rights upon retirement		7
Provision for returns	231	150
Taxes payable	69	98
	$2,217	$1,509

e. Deferred revenues

The changes in deferred revenues during the years ended December 31, 2011 and 2010 are as follows:

	Year ended December 31	
	2011	2010
	($ in thousands)	
Balance at beginning of year	$398	$1,975
Revenue deferred during the year		320
Revenue recognized during the year	(398)	(1,897)
Balance at end of year	$-	$398

Statements of Operation:

f. Financial expenses (income), net:

	Year ended December 31		
	2011	2010	2009
	($ in thousands)		
Bank commissions	$63	$83	$18
Interest income	(36)	(1)	(1)
Exchange rate differences	177	(33)	30
Interest expense	730	105	221
Redemption of beneficial conversion feature of convertible loan			(308)
	$934	$154	$(40)

INSPIREMD, INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - ENTITY WIDE DISCLOSURES

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:

	Year ended December 31		
	2011	2010	2009
	($ in thousands)		
India	$1,083	$-	$-
Israel	730	119	-
Italy	313	390	668
Cyprus	60	7	337
Pakistan	5	193	477
Poland	268	1,446	-
Other	3,545	2,794	1,929
	$6,004	$4,949	$3,411

By principal customers:

	Year ended December 31					
	2011		2010		2009	
Customer A	18	%	-	%	-	%
Customer B	12	%	2	%	-	%
Customer C	5	%	8	%	20	%
Customer D	1	%	-	%	10	%
Customer E	-	%	4	%	14	%
Customer F	4	%	29	%	-	%

All tangible long lived assets are located in Israel.

NOTE 14 - SUBSEQUENT EVENTS:

a) On January 30, 2012, the Company appointed a new director (hereafter - "Director D") to our board of directors. In connection to his appointment, we issued Director D an option to purchase 100,000 shares of our common stock, which will vest one-third annually in 2013, 2014 and 2015 on the anniversary of the date of grant, provided that he is (i) not reelected as a director at our 2014 annual meeting of stockholders, or (ii) not nominated for reelection as a director at our 2014 annual meeting of stockholders, the option vests and becomes exercisable on the date of such failure to be reelected or nominated.

b) The Company used the following assumptions: dividend yield of 0% and expected term of 5.5-6.5 years in each year; expected volatility of 58-60%; and risk-free interest rate of 1.01-1.26%. The options have terms of 10 years from the date of grant, and the fair value of the options granted above, using the Black-Scholes option-pricing model was approximately $106 thousand.

c) In March 1, 2012, the Company granted an employee and a distributer 40,000 and 77,915 options with performance conditions, respectively.

d) As to the above grants, the Company used the following assumptions: dividend yield of 0%; expected term of 5.5-6.5 years and 2 years in each year, respectively; expected volatility of 57-58% and 47%, respectively; and risk-free interest rate of 1.03-1.3% and 0.3%, respectively. The options have terms of 10 years and 2 years from the date of grant, respectively, and the fair value of the options granted above, using the Black-Scholes option-pricing model was approximately $42 thousand and $68 thousand, respectively.

e) In February 2012, Leumi Bank approved the release of a fixed lien in the amount of $53 thousand.

f) Convertible Debentures (unaudited)

On April 5, 2012, the Company issued senior secured convertible debentures due April 5, 2014 in the original aggregate principal amount of $11,702,128 and five-year warrants to purchase an aggregate of 3,343,465 shares of our common stock at an exercise price of $1.80 per share in a private placement transaction (the "Private Placement") in exchange for aggregate gross proceeds of $11,000,000. The debentures were issued with a 6% original contractual issuance discount, bear interest at an annual rate of 8% and are convertible at any time into shares of common stock at an initial conversion price of $1.75 per share. Furthermore, the number of convertible shares is subject to a premium adjustment, as stipulated in the convertible debenture agreement. In addition, the investors may require us to redeem the debentures commencing 18 months (or earlier upon the occurrence in the event of default, as stipulated in the convertible debentures agreement) for 112% of the then outstanding principal amount, plus all accrued interest, and the Company may prepay the debentures commencing six months following their issuance date for 112% of the then outstanding principal amount, plus all accrued interest. In addition, the Company may force conversion of the debentures under

certain terms stipulated in the agreements.

In consideration for serving as placement agents for the Private Placement, the placement agents were issued an aggregate cash fee of $848,750 and warrants to purchase 312,310 shares of common stock. The placement agent warrants are identical to the warrants issued to investors.

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INSPIREMD, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

(U.S. dollars in thousands)

	March 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,351	$ 5,094
Restricted cash	39	91
Accounts receivable:		
Trade	2,042	2,284
Other	204	118
Prepaid expenses	89	72
Inventory:		
On hand	2,017	2,061
On consignment	59	110
Total current assets	7,801	9,830
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization	465	420
OTHER NON-CURRENT ASSETS:		
Funds in respect of employees rights upon retirement	236	215
Deferred issuance costs	25	
Total other non-current assets	261	215
Total assets	$ 8,527	$ 10,465

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

INSPIREMD, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(U.S. dollars in thousands)

	March 31, 2012	December 31, 2011
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loans	$-	$ 94
Accounts payable and accruals:		
Trade	333	814
Other	2,858	2,217
Advanced payment from customers	192	316
Deferred revenues	25	
Total current liabilities	3,408	3,441
LONG-TERM LIABILITY-		
Liability for employees rights upon retirement	317	270
Total long-term liabilities	317	270
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)-		
Total liabilities	3,725	3,711
EQUITY:		
Common stock, par value $0.0001 per share; 125,000,000 shares authorized; 68,178,946 shares issued and outstanding at March 31, 2012 and December 31, 2011.	7	7
Additional paid-in capital	44,576	43,388
Accumulated deficit	(39,781)	(36,641)
Total equity	4,802	6,754
Total liabilities and equity	$8,527	$ 10,465

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

INSPIREMD, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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

	Three months ended March 31,	
	2012	2011
REVENUES	$ 1,138	$ 1,686
COST OF REVENUES	574	899
GROSS PROFIT	564	787
OPERATING EXPENSES:		
Research and development	1,349	343
Selling and marketing	445	428
General and administrative	1,896	1,186
Total operating expenses	3,690	1,957
LOSS FROM OPERATIONS	(3,126)	(1,170)
FINANCIAL (INCOME) EXPENSES, net	(11)	715
LOSS BEFORE TAX EXPENSES	(3,115)	(1,885)
TAX EXPENSES	25	10
NET LOSS	$ (3,140)	$ (1,895)
NET LOSS PER SHARE - basic and diluted	$ (0.05)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK USED IN COMPUTING NET LOSS PER SHARE - basic and diluted	68,178,946	50,798,900

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

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

(U.S. dollars in thousands)

	3 months ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(3,140)	$(1,895)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	34	25
Loss from sale of property, plant and equipment		15
Change in liability for employees right upon retirement	47	25
Financial expenses (income)	(3)	654
Share-based compensation expenses	1,188	385
Gains on amounts funded in respect of employee rights upon retirement, net		(3)
Changes in operating asset and liability items:		
Increase in prepaid expenses	(17)	(26)
Decrease in trade receivables	242	370
Increase in other receivables	(86)	(18)
Decrease in inventory on consignment	51	40
Decrease in inventory on hand	44	372
Decrease in trade payables	(481)	(633)
Increase (decrease) in deferred revenues	25	(100)
Increase in other payables and advance payment from customers	517	428
Net cash used in operating activities	(1,579)	(361)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in restricted cash	52	(92)
Purchase of property, plant and equipment	(79)	(28)
Proceeds from sale of property, plant and equipment		29
Amounts funded in respect of employee rights upon retirement	(21)	(11)
Net cash used in investing activities	(48)	(102)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of shares and warrants, net of issuance costs of $535.		9,468
Convertible loan		100
Repayment of long term loan	(94)	(94)
Repayment of loans from shareholders		(20)
Net cash provided by (used in) financing activities	(94)	9,454
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(22)	(12)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,743)	8,979
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	5,094	636
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$3,351	$9,615

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES -	
Conversion of convertible loan into shares	$668
Purchasing of property, plant and equipment in consideration of share based payment	$62

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

INSPIREMD, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

InspireMD, Inc. (the "Company") was originally formed as Saguaro Resources, Inc. in Delaware on February 29, 2008. On March 28, 2011, the Company changed its name to InspireMD, Inc.

On December 29, 2010, the Company entered into a Share Exchange Agreement (the "Exchange Agreement") by and among the Company and InspireMD Ltd., a limited company incorporated under the laws of the State of Israel in April 2005. Subsequent to the date of execution of the Exchange Agreement, shareholders of InspireMD Ltd. holding 91.7% of InspireMD Ltd.'s issued and outstanding ordinary shares executed a joinder to the Exchange Agreement and became parties thereto (the "InspireMD Shareholders"). Pursuant to the Exchange Agreement, on March 31, 2011, the InspireMD Shareholders transferred all of their ordinary shares in InspireMD Ltd. to the Company in exchange for 46,471,907 newly issued shares of common stock of the Company (the "Initial Share Exchange"). In addition, the remaining holders of InspireMD Ltd.'s ordinary shares separately transferred all of their ordinary shares of InspireMD Ltd. to the Company in exchange for an aggregate of 4,194,756 newly issued shares of common stock of the Company (the "Follow Up Share Exchange" and, together with the Initial Share Exchange, the "Share Exchange"). As a result of the Share Exchange, InspireMD Ltd. became a wholly owned subsidiary of the Company.

The Share Exchange was accounted for as a reverse recapitalization, equivalent to the issuance of stock by InspireMD Ltd., for the net monetary assets of the Company. Accordingly, the historical financial statements of the Company reflect the historical operations and financial statements of InspireMD Ltd.

The Company, together with its subsidiaries, is a medical device company focusing on the development and commercialization of its proprietary stent platform technology, MGuard™. MGuard™ provides embolic protection in stenting procedures by placing a micron mesh sleeve over a stent. The Company's initial products 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, Asia and Latin America.

In addition, the Company operates in Germany through its wholly-owned subsidiary InspireMD GmbH, a German limited liability company incorporated in November 2007, where the Company subcontracts the manufacturing of its stents.

Funds available, together with the Company's anticipated revenues and including the convertible debentures issued on April 5, 2012 (see note 10), are expected to fund the Company's operations until at least the first quarter of 2013, assuming the Company's MGuard for Acute ST Elevation Reperfusion Trial (MASTER Trial) is successful and as a result we invest significantly in sales and marketing. If the Company's MGuard for Acute ST Elevation Reperfusion Trial (MASTER Trial) is not as successful as anticipated and we scale back expansion plans and general overhead, funds available, together with the Company's anticipated revenues, are expected to fund the Company's operations through the end of 2013. Regardless, in order to expand the breadth of the Company's present business, we will need to raise further capital, through the sale of additional equity securities or debt. The Company's future capital requirements and the adequacy of the Company's available funds will depend on many factors, including the Company's ability to successfully commercialize the Company's MGuardTM products, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement the Company's product offerings. However, we may be unable to raise sufficient additional capital when we need it or raise capital on favorable terms. The terms of any securities issued by us in future financings may be more favorable to new investors, and may include preferences, superior voting rights

and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of the Company's securities then outstanding. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly, possibly postpone or halt the Company's U.S. Food and Drug Administration clinical trial or obtain funds by entering into financing agreements on unattractive terms.

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NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position and results of operations of the Company. These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2011, as found on the Company's Annual Report on Form 10-K.The balance sheet for December 31, 2011 was derived from the Company's audited financial statements for the year ended December 31, 2011. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 3 - RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCMENTS:

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 changes certain fair value measurement principles and clarifies the application of existing fair value measurement guidance. These amendments require, among other things, (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy.

For public entities, ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, on a prospective basis.

Effective January 1, 2012, the Company adopted ASU 2011-04. The adoption of this accounting standards update did not have a material impact on the Company's consolidated financial statements.

NOTE 4 – DEFERRED REVENUE:

The Company's revenue arrangements may contain delivery of free products upon the achievement of sales targets. Each period, the Company estimates the amount of free products these distributors will be entitled based upon the expected achievement of sales targets and defers a portion of revenues accordingly.

As of March 31, 2012 the Company deferred revenue amounting to $25,000 relating to free products entitled to these distributors.

NOTE 5 - EQUITY:

On January 30, 2012, the Company appointed a new director ("Director A") to its board of directors. In connection with his appointment, the Company issued Director A an option to purchase 100,000 shares of its common stock at an exercise price of $1.95 per share, which will vest one-third annually in 2013, 2014 and 2015 on the anniversary of the date of grant, provided that if he is (i) not reelected as a director at the Company's 2014 annual meeting of stockholders, or (ii) not nominated for reelection as a director at the Company's 2014 annual meeting of stockholders, the option vests and becomes exercisable on the date of such failure to be reelected or nominated.

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In valuing this option, the Company used the following assumptions: dividend yield of 0%; expected term of 5.5-6.5 years in each year; expected volatility of 58-60%; and risk-free interest rate of 1.01-1.26%. The option has a term of 10 years from the date of grant, and the fair value of the option granted above, using the Black-Scholes option-pricing model, was approximately $106,000.

On March 1, 2012, the Company granted an employee an option to purchase 40,000 shares of common stock at an exercise price of $1.95 per share, which option vests upon the achievement of performance conditions as set on the grant date. The option fair value amortization is recorded under “Research and development” expenses.

In addition, a distributer of the Company was granted an option to purchase 77,915 shares of common stock at an exercise price of $1.23 per share. The fair value of this share based compensation is to be recorded against revenues.

In valuing the above option grants, the Company used the following assumptions: dividend yield of 0%; expected term of 5.5-6.5 years and 2 years, respectively; expected volatility of 57-58% and 47%, respectively; and risk-free interest rate of 1.03-1.3% and 0.3%, respectively. The options have terms of 10 years and 2 years from the date of grant, respectively, and the fair values of the options granted above, using the Black-Scholes option-pricing model, were approximately $42,000 and $68,000, respectively.

The change in the Company’s equity during the first quarter of 2012, other than the net loss, is mainly attributable to share based compensation in the amount of $1,188,000.

NOTE 6 - FAIR VALUE MEASURMENT:

a. 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.

b. 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.

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accruals 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 carrying amount of the Company’s other financial long-term assets and other financial long-term liabilities also approximate their fair value.

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NOTE 7 - INVENTORY ON HAND:

	March 31, 2012	December 31, 2011
	($ in thousands)	
Finished goods	$ 537	$ 741
Work in process	1,320	1,044
Raw materials and supplies	160	276
	$ 2,017	$ 2,061

NOTE 8 - COMMITMENT AND CONTINGENT LIABILITIES:

a. Commitment

In March 2010, the Company entered into a license agreement to use a stent design ("MGuard PrimeTM"). Pursuant to the agreement, the licensor is entitled to receive royalty payments of 7% of net sales outside the United States and, for sales within the United States, royalty payments as follows: 7% of net sales for the first $10,000,000 of net sales and 10% of net sales for net sales exceeding $10,000,000.

b. Litigation

The Company is a party to various claims arising in the ordinary course of its operations in the aggregate amount of $10,000. The Company has not recorded an expense related to damages in connection with these matters because 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.

In February 2011, representatives of a third party indicated that they intend to seek damages from the Company in connection with certain finders' fees that they claim are owed to them. The claimants' demand was for approximately $1 million. The claimants' most recent settlement demand, conveyed in April 2011, was for a total of $250,000 in cash and 250,000 shares of the company common stock. To date, no lawsuit has been filed and the Company has not accrued an expense in connection with this matter because 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.

In November 2010, a former senior employee submitted a claim against the Company in the total amount of $430,000 and options to purchase 2,029,025 shares of the Company's common stock at an exercise price of $0.001 per share in the Magistrate's Court in Tel Aviv, claiming unpaid back wages and commissions. The fair value of those options was valued using the Black-Scholes valuation model at $2.5 million as of the period he claimed to be entitled to the options. As of March 31, 2012, a provision of $100,000 was included in the Company's financial statements. The Company's management, after considering the views of its legal counsel as well as other factors, is of the opinion an additional loss to the Company is neither probable nor in an amount or range of loss that is estimable.

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In November 2010, an alleged founder and former legal advisor of the Company submitted a claim against the Company for options to purchase 496,056 shares of the Company's common stock at an exercise price of $0.001 per share in the Magistrate's Court in Tel Aviv. The fair value of those options was estimated using the Black-Scholes valuation model at $134,000 as of the grant date. It was during 2005 and 2006 that the Company first became aware of the events that gave rise to this litigation. Also, during this time, the Company had discussions with the plaintiffs on an informal basis. The Company's management, after considering the views of its legal counsel as well as other factors, has recorded a share-based compensation expense of $134,000 in 2006, in respect of services allegedly provided in 2005 and 2006.

In November 2010, a former legal advisor of the Company submitted in the Magistrate's Court in Tel Aviv a claim against the Company in the total amount of $53,000 due to an alleged breach of employment promise. It was during 2005 and 2006 that the Company first became aware of the events that gave rise to this litigation. Also during this time, the Company had discussions with the plaintiff on an informal basis. The Company's management, after considering the views of its legal counsel as well as other factors, has recorded a provision of $53,000 recorded in 2006.

With respect to the two claims against the Company submitted by an alleged founder and former legal advisor of the Company in November 2010 described above, following a mediation meeting held in January 2012, the parties reached the following settlement agreement: (i) the plaintiff shall be the owner of options to purchase 194,786 shares of common stock of the Company and withdraw its claim for the remaining 301,272 options; and (ii) the Company would withdraw its counterclaim against the plaintiff. In January 2012, the District Court in Tel Aviv approved the aforesaid settlement and corresponding judgment was given by the court. Following the aforementioned meeting held in January 2012, the parties reached a settlement agreement according to which the plaintiff would withdraw its claim in its entirety. A motion to approve such settlement was filed with the Labor Court in Tel Aviv in January 2012. Following the settlement agreement, as of December 31, 2011, the provision in the amount of $53,000 was reversed.

In February 2011, a finder submitted a claim against the Company in the amount of $327,000 in the Magistrate's Court in Tel Aviv, claiming a future success fee and commission for assistance in finding the Company's distributor in Brazil. The Company's management, after considering the views of its legal counsel as well as other factors, has recorded a provision of $327,000 in the financial statements in the first quarter of 2011. The related expense has been recorded to "General and administrative" within the condensed consolidated statements of operations. On October 5, 2011, the Company filed a counter claim against the plaintiff in the amount of $29,000.

In August 2011, a former senior employee submitted to the Regional Labor Court in Tel Aviv a claim against the Company for (i) a compensation of $118,000; and (ii) a declaratory ruling that he is entitled to exercise 486,966 options to purchase shares of the Company's common stock at an exercise price of $0.001 per share. After consulting with its legal advisor, the Company is unable to assess the probable outcome of this claim.

In November 2011, a previous finder of InspireMD Ltd. (the "Subsidiary") submitted to the Magister Court in Tel Aviv a claim against the Company, the Subsidiary and the Company's president and CEO for a declaratory ruling that it is entitled to convert options to purchase 13,650 of the Subsidiary's ordinary shares at an exercise price of $3.67 per share into options to purchase 110,785 shares of the Company's common stock at an exercise price of $0.45 per share, and to convert options to purchase 4,816 of the Subsidiary's ordinary shares at an exercise price of $10 per share into options to purchase 39,087 shares of the Company's common stock at an exercise price of $1.23 per share. After consulting with its legal advisor, the Company is unable to assess the probable outcome of this claim.

In December 2011, a statement of claim against the Company was submitted by an alleged employee regarding 584,357 options to purchase the Company's shares. The Company filed its defense in this case on March 11, 2012. On May 6, 2012, the Company and the alleged employee agreed to refer the case to mediation. A second hearing in this case was set for July 9, 2012. After considering the views of its legal counsel as well as other factors, the Company is unable to assess the probable outcome of this claim.

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c. Fixed Lien

As of December 31, 2011, the Company had fixed liens of $91,000 to Bank Mizrahi and Bank Leumi in connection with the Company's credit cards.

In February 2012, Bank Leumi approved the release of a fixed lien in the amount of $52,000.

NOTE 9 - ENTITY WIDE DISCLOSURE:

The Company operates in one reportable 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:

	3 months ended March 31, 2012	2011
Mexico	$219	$ 30
Germany	150	40
Poland	144	55
Netherlands	123	-
India	120	1,083
Other	382	478
	$1,138	$ 1,686

The following is a summary of revenues by principal customers:

	3 months ended March 31, 2012		2011	
Customer A	19	%	2	%
Customer B	13	%	2	%
Customer C	13	%	3	%
Customer D	11	%	0	%
Customer E	11	%	64	%

All tangible long lived assets are located in Israel.

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NOTE 10 - SUBSEQUENT EVENTS:

On April 5, 2012, the Company issued senior secured convertible debentures due April 5, 2014 in the original aggregate principal amount of $11,702,128 and five-year warrants to purchase an aggregate of 3,343,465 shares of our common stock at an exercise price of $1.80 per share in a private placement transaction (the “Private Placement”) in exchange for aggregate gross proceeds of $11,000,000. The debentures were issued with a 6% original contractual issuance discount, bear interest at an annual rate of 8% and are convertible at any time into shares of common stock at an initial conversion price of $1.75 per share. Furthermore, the number of convertible shares is subject to a premium adjustment, as stipulated in the convertible debenture agreement. In addition, the investors may require us to redeem the debentures commencing 18 months (or earlier upon the occurrence in the event of default, as stipulated in the convertible debentures agreement) for 112% of the then outstanding principal amount, plus all accrued interest, and the Company may prepay the debentures commencing six months following their issuance date for 112% of the then outstanding principal amount, plus all accrued interest. In addition, the Company may force conversion of the debentures under certain terms stipulated in the agreements.

In consideration for serving as placement agents for the Private Placement, the placement agents were issued an aggregate cash fee of $848,750 and warrants to purchase 312,310 shares of common stock. The placement agent warrants are identical to the warrants issued to investors.