InspireMD, Inc.
Form 10-Q
November 06, 2018

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: September 30, 2018

OR

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

For the transition period from to

Commission file number: 001-35731

InspireMD, Inc.

(Exact name of registrant as specified in its charter)

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

4 Menorat Hamaor St.

Tel Aviv, Israel 6744832

(Address of principal executive offices)

(Zip Code)

(888) 776-6204

(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The number of shares of the registrant's common stock, $0.0001 par value, outstanding as of November 5, 2018: 37,604,035

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(Unaudited)

September 30, 2018

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INSPIREMD, INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2018

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

INSPIREMD, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(U.S. dollars in thousands)

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	11,247	3,710
Accounts receivable:		
Trade, net	710	643
Other	169	207
Prepaid expenses	145	62
Inventory	816	533
TOTAL CURRENT ASSETS	13,087	5,155
NON-CURRENT ASSETS:		
Property, plant and equipment, net	400	476
Funds in respect of employee rights upon retirement	446	476
TOTAL NON-CURRENT ASSETS	846	952
TOTAL ASSETS	13,933	6,107

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INSPIREMD, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

	September 30, 2018	December 31, 2017
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accruals:		
Trade	456	328
Other	1,891	2,134
Contract liability	26	20
TOTAL CURRENT LIABILITIES	2,373	2,482
LONG-TERM LIABILITIES-		
Liability for employees rights upon retirement	608	624
TOTAL LONG-TERM LIABILITIES	608	624
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
TOTAL LIABILITIES	2,981	3,106
REDEEMABLE PREFFERED SHARES	-	274
EQUITY:		
Common stock, par value $0.0001 per share; 150,000,000 shares authorized at September 30, 2018 and December 31, 2017; 36,694,035 and 1,483,556 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	4	-
Preferred B shares, par value $0.0001 per share; 500,000 shares authorized at September 30, 2018 and December 31, 2017; 17,303 and 27,075 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	-	-
Preferred C shares, par value $0.0001 per share; 1,172,000 shares authorized at September 30, 2018 and December 31, 2017; 61,423 and 741,651 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	-	-
Preferred D shares, par value $0.0001 per share; 750 shares authorized at September 30, 2018 and December 31, 2017 ; 0 and 750 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively		-
Additional paid-in capital	156,327	143,079
Accumulated deficit	(145,379)	(140,352)
Total equity	10,952	2,727
Total liabilities, redeemable preferred shares and equity	13,933	6,107

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

INSPIREMD, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

	Three months ended		**Nine months ended**	
	September 30		**September 30**	
	2018	2017	2018	2017
REVENUES	769	718	2,779	1,927
COST OF REVENUES	571	565	2,011	1,553
GROSS PROFIT	198	153	768	374
OPERATING EXPENSES:				
Research and development	416	288	898	1,041
Selling and marketing	605	671	1,677	1,835
General and administrative	1,156	1,279	3,598	4,281
Total operating expenses	2,177	2,238	6,173	7,157
LOSS FROM OPERATIONS	(1,979)	(2,085)	(5,405)	(6,783)
FINANCIAL EXPENSES (Income)**,** net:				
Interest expenses	-	-	-	119
Other financial expenses (income)	32	1	(378)	36
Total financial expenses (income)	32	1	(378)	155
LOSS BEFORE TAX EXPENSES	(2,011)	(2,086)	(5,027)	(6,938)
TAX EXPENSES	-	-	-	1
NET LOSS	(2,011)	(2,086)	(5,027)	(6,939)
NET LOSS PER SHARE - basic and diluted	(0.05)	(6.56)	(0.32)	(30.42)
WEIGHTED AVERAGE NUMBER OF COMMON STOCK USED IN COMPUTING NET LOSS PER SHARE - Basic and diluted	40,764,158	317,896	16,729,052	248,907

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

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INSPIREMD, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

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

	Common stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		**Additional paid-in**	**Accumulated**	**Total**
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	capital	deficit	equity
BALANCE AT DECEMBER 31, 2017	1,483,556	*	27,075	*	741,651	*	750	*	$ 143,079	$ (140,352)	$ 2,727
Net loss										$ (5,027)	$ (5,027)
Issuance of common shares, warrants, Pre-funded warrants and exercise of pre-funded warrants, net of $2,171 issuance costs	33,873,810	4							15,805		15,809
Redemption of Series D Preferred Stock							(750)	*	(750)		(750)
Conversion of Series B Preferred Stock to common shares	80,620	*	(9,772)	*					274		274
Conversion of Series C Preferred Stock to common shares	1,144,726	*			(326,436)	*			936		936
Exercise of Unit Purchase Option	111,442	*							557		557
Accretion of redeemable preferred shares									(438)		(438)
Redemption of Series C					(353,792)	*			(3,200)		(3,200)

Preferred Stock

Share-based compensation related to restricted stock and stock options award, net of forfeitures of 121 shares	(119)	*							64		64
BALANCE AT September 30, 2018	36,694,035	4	17,303	*	61,423	*	-	*	$ 156,327	$ (145,379)	$ 10,952

*** Represents an amount less than $1 thousand**

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

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INSPIREMD, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(U.S. dollars in thousands)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,027)	$ (6,939)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	115	127
Loss from sale of property, plant and equipment	-	13
Change in liability for employees right upon retirement	(16)	23
Financial expenses	(425)	(505)
Share-based compensation expenses	64	612
Changes in operating asset and liability items:		
Increase in prepaid expenses	(83)	(44)
Increase in trade receivables	(67)	(182)
Decrease (increase) in other receivables	29	(10)
Increase in inventory	(283)	(76)
Increase (decrease) in trade payables	128	(216)
Increase (decrease) in other payables and contract liability	(238)	841
Net cash used in operating activities	(5,803)	(6,356)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(30)	(237)
Amounts funded (withdrawn) in respect of employee rights upon retirement, net	30	(45)
Net cash used in investing activities	-	(282)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes withheld in respect of share issuance	-	(10)
Proceeds from issuance of shares and warrants and exercise of Pre-Funded Warrants and unit purchase option, net of $2,161 and $776 issuance costs, respectively	16,365	6,072
Redemption of series C and D preferred stock	(3,014)	
Repayment of long-term loan	-	(2,179)
Net cash provided by financing activities	13,351	3,883
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(11)	4
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,537	(2,751)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,710	7,516
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$11,247	$4,765
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		
Classification of Redemption Obligation of Preferred Shares to Mezzanine and Embedded Derivative, see Note 4c	164	-

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

INSPIREMD, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS

a. General

InspireMD, Inc., a Delaware corporation (the "Company"), together with its subsidiaries, is a medical device company focusing on the development and commercialization of its proprietary MicroNet™ stent platform technology for the treatment of complex vascular and coronary disease. MicroNet, a micron mesh sleeve, is wrapped over a stent to provide embolic protection in stenting procedures.

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

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

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

b. Liquidity

The Company has an accumulated deficit as of September 30, 2018, as well as a history of net losses and negative operating cash flows in recent years. The Company expects to continue incurring losses and negative cash flows from operations until its products (primarily CGuard™ EPS) reach commercial profitability. As a result of these expected losses and negative cash flows from operations, along with the Company's current cash position, the Company only has sufficient resources to fund operations through the end of the third quarter of 2019. Therefore, there is substantial doubt about the Company's ability to continue as a going concern. These financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

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

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the financial position and results of operations of the Company. These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017, as found in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 13, 2018. The results of operations for the nine and three months ended September 30, 2018 are not necessarily indicative of results that could be expected for the entire fiscal year.

Revenue from contracts with customers

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

INSPIREMD, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

NOTE 2 - BASIS OF PRESENTATION (continued):

Revenue recognition prior to the adoption of the New Revenue Standard

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

Revenue recognition following the adoption of the New Revenue Standard

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

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

The Company recognizes the incremental costs of obtaining contracts as an expense since the amortization period of the assets that the Company otherwise would have recognized is one year or less. The costs are recorded under selling and marketing expenses. Disaggregated revenue is disclosed in Note 10.

NOTE 3 – RECENTLY ADOPTED AND ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued guidance on leases. The guidance requires entities to record lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. In September 2017, the FASB issued additional amendments providing clarification and implementation guidance. The guidance will become effective for interim and annual periods beginning on January 1, 2019. Entities are required to adopt the standard using either a modified retrospective transition approach, which requires application of the new guidance at the beginning of the earliest comparative period, or to initially apply the new leases standard at the adoption date (January 1, 2019) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

In July 2018, the FASB issued codification improvements, which clarify how to apply certain aspects of the new lease standard. Although the Company has not finalized its process of evaluating the impact of adoption of the ASU on its consolidated financial statements, the Company expects there will be a material increase to assets and liabilities related to the recognition of right of use asset and lease liabilities on the Company’s balance sheet for leases currently classified as operating leases in an estimated amount ranging from $600,000 to $700,000.

INSPIREMD, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

NOTE 4 - EQUITY:

a. On February 7, 2018, the Company filed with the Secretary of State of Delaware a Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation to effect a one-for-thirty-five reverse stock split of its common stock, par value $0.0001 per share, effective as of February 7, 2018. All related share and per share data have been retroactively applied to the financial statements and their related notes for all periods presented.

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

INSPIREMD, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

NOTE 4 – EQUITY (continued):

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

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

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

As of the date of the February 2018 SPA amendment, the Company classified an amount of $3,200,000 from permanent equity to “Redeemable Preferred Shares” and “Derivative Liability” in an amount of $2,580,000 and $620,000, respectively.

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

INSPIREMD, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

NOTE 4 – EQUITY (continued):

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

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

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

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

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

an aggregate of 190,333 additional shares of common stock upon conversion of the Series B Preferred Stock and as payment of the dividends thereunder in common stock, based on 17,303 shares of Series B Preferred Stock outstanding as of March 1, 2018.
an aggregate of 1,497,427 additional shares of common stock upon conversion of the Series C Preferred Stock, based on 741,651 shares of Series C Preferred Stock outstanding as of March 1, 2018.
an aggregate of 142,857 additional shares of common stock upon conversion of the Series D Preferred Stock, based on 750 shares of Series D Preferred Stock outstanding as of March 1, 2018.

For accounting purposes, the Company analyzed whether the change in the conversion price of the Series D Preferred Stock constitutes an extinguishment for accounting purposes, by comparing the fair value of the Series D Preferred Stock immediately before and after such change in terms. Since the fair value increased substantially, i.e. by more than 10%, the change in terms was accounted for as an extinguishment. As a result, the difference between the fair value of the Series D Preferred Stock immediately after the change in term (the reduction of the conversion price from $7.00 per share to $3.00 per share, pursuant to the Series D Purchase Agreement, as amended by February 2018 SPA amendment and the Waiver Agreement) and the carrying amount immediately before such change, in the amount of $49,000, was added to the basic loss per share attributable to the Company’s common stockholders.

INSPIREMD, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

NOTE 4 – EQUITY (continued):

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

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

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

In connection with the offering, the Company agreed to issue to the underwriter warrants to purchase up to 171,429 shares of common stock, or 6% of the April 2, 2018 Shares sold in the offering (the "April Underwriter Warrants"). The April Underwriter Warrants will be exercisable at any time and from time to time, in whole or in part, following th