

InspireMD, Inc.  
Form PRE 14A  
August 18, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement

[ ] **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to §240.14a-12

**INSPIREMD, INC.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

**InspireMD, Inc.**

4 Menorat Hamaor St.

Tel Aviv, Israel 6744832

Telephone: (888) 776-6804

August 29, 2017

Dear Stockholder:

You are cordially invited to attend a special meeting of stockholders of InspireMD, Inc. to be held at 11:30 a.m., New York time, on October 3, 2017, at the offices of Haynes and Boone, LLP, located at 30 Rockefeller Plaza, 26th Floor, New York, New York 10112.

Please note that in order to gain admission to the site of our special meeting, all attendees will need to present a photo identification card and have their name previously provided to building security. As such, in order to facilitate your attendance at the special meeting, we strongly encourage you to advise Craig Shore by email at [craigs@inspiremd.com](mailto:craigs@inspiremd.com) or phone at (888) 776-6804 if you plan to attend the meeting prior to 5:00 p.m., New York time, on October 2, 2017, so that we can timely provide your name to building security. In the event that you do not advise us ahead of time that you will be attending the special meeting, we encourage you to arrive at the meeting no later than 11:00 a.m., New York time, in order to ensure that you are able to pass through security prior to the start of the meeting.

Your vote is very important, regardless of the number of shares of our voting securities that you own. I encourage you to vote by telephone, over the Internet, or by marking, signing, dating and returning your proxy card so that your shares will be represented and voted at the special meeting, whether or not you plan to attend. If you attend the special meeting, you will, of course, have the right to revoke the proxy and vote your shares in person.

If your shares are held in the name of a broker, trust, bank or other nominee, and you receive notice of the special meeting through your broker or through another intermediary, please vote or return the materials in accordance with the instructions provided to you by such broker or other intermediary or contact your broker directly in order to obtain a proxy issued to you by your nominee holder to attend the meeting and vote in person. Failure to do so may result in your shares not being eligible to be voted by proxy at the meeting.

On behalf of the board of directors, I urge you to submit your proxy as soon as possible, even if you currently plan to attend the meeting in person.

Thank you for your support of our company. I look forward to seeing you at the special meeting.

Sincerely,

*/s/ Paul Stuka*

Paul Stuka

*Chairman*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR  
THE STOCKHOLDER MEETING TO BE HELD ON OCTOBER 3, 2017:**

**Our official Notice of Special Meeting of Stockholders, Proxy Statement and Proxy Card are available at:**

***[www.proxyvote.com](http://www.proxyvote.com)***

**InspireMD, Inc.**

4 Menorat Hamaor St.

Tel Aviv, Israel 6744832

Telephone: (888) 776-6804

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held October 3, 2017**

The 2017 Special Meeting of Stockholders of InspireMD, Inc., a Delaware corporation (the “Company”), will be held at 11:30 a.m., New York time, on October 3, 2017, at the offices of Haynes and Boone, LLP, located at 30 Rockefeller Plaza, 26th Floor, New York, New York 10112. We will consider and act on the following items of business at the special meeting:

- (1) Approval of the Fourth Amendment to the InspireMD, Inc. 2013 Long-Term Incentive Plan to increase the number of shares of common stock available for issuance pursuant to awards under such plan by 40,000,000 shares, to a total of 40,690,800 shares of common stock, and reapproval of the material terms of the plan’s performance goals in order to allow certain awards granted thereunder to be eligible for exemption from the \$1,000,000 deduction limit imposed by Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Incentive Plan Proposal”).
- (2) Authorization of the board of directors, in its discretion but prior to the annual meeting of our stockholders in 2018, 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 in the range of 1-for-10 to 1-for-25, such ratio to be determined by the board of directors (the “Reverse Stock Split Proposal”).
- (3) To approve an adjournment of the Special Meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of any of the foregoing proposals (the “Adjournment Proposal”).

Stockholders are referred to the Proxy Statement accompanying this notice for more detailed information with respect to the matters to be considered at the Special Meeting. After careful consideration, **the board of directors recommends a vote FOR the Incentive Plan Proposal (Proposal 1); FOR the Reverse Stock Split Proposal (Proposal 2); and FOR the Adjournment Proposal (Proposal 3).**

The board of directors has fixed the close of business on August 28, 2017, as the record date (the “Record Date”). Only holders of record of shares of our common stock are entitled to receive notice of the Special Meeting and to vote at the Special Meeting or at any postponement(s) or adjournment(s) of the Special Meeting. A complete list of registered stockholders entitled to vote at the Special Meeting will be available for inspection at the office of the Company during regular business hours for the 10 calendar days prior to and during the Special Meeting.

Please note that in order to gain admission to the site of our Special Meeting, all attendees will need to present a photo identification card and have their name previously provided to building security. As such, in order to facilitate your attendance at the Special Meeting, we strongly encourage you to advise Craig Shore by email at [craigs@inspiremd.com](mailto:craigs@inspiremd.com) or phone at (888) 776-6804 if you plan to attend the meeting prior to 5:00 p.m., New York time, on October 2, 2017, so that we can timely provide your name to building security. In the event that you do not advise us ahead of time that you will be attending the special meeting, we encourage you to arrive at the meeting no later than 11:00 a.m., New York time, in order to ensure that you are able to pass through security prior to the start of the meeting.

**YOUR VOTE AND PARTICIPATION IN THE COMPANY’S AFFAIRS ARE IMPORTANT.**

*If your shares are registered in your name*, even if you plan to attend the Special Meeting or any postponement or adjournment of the Special Meeting in person, we request that you vote by telephone, over the Internet, or complete, sign and mail your proxy card to ensure that your shares will be represented at the Special Meeting.

*If your shares are held in the name of a broker, trust, bank or other nominee*, and you receive notice of the Special Meeting through your broker or through another intermediary, please vote or complete and return the materials in accordance with the instructions provided to you by such broker or other intermediary or contact your broker directly in order to obtain a proxy issued to you by your nominee holder to attend the Special Meeting and vote in person. Failure to do so may result in your shares not being eligible to be voted by proxy at the Special Meeting.

By Order of The Board of Directors,

*/s/ Paul Stuka*  
Paul Stuka  
*Chairman*

August 29, 2017

Table of Contents

<b><u>ABOUT THE SPECIAL MEETING</u></b>	3
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u></b>	8
<b><u>EXECUTIVE COMPENSATION</u></b>	9
<b><u>PROPOSAL 1: APPROVAL OF THE INCENTIVE PLAN Proposal</u></b>	24
<b><u>Proposal 2: APPROVAL OF THE REVERSE STOCK SPLIT PROPOSAL</u></b>	37
<b><u>Proposal 3: APPROVAL OF THE ADJOURNMENT PROPOSAL</u></b>	45
<b><u>OTHER BUSINESS</u></b>	45
<b><u>SUBMISSION OF FUTURE STOCKHOLDER PROPOSALS</u></b>	45
<b><u>Annex a – proposed Fourth amendment to the inspiremd, inc. 2013 long-term incentive plan</u></b>	ANNEX A-1
<b><u>Annex B – inspiremd, inc. 2013 long-term incentive plan</u></b>	ANNEX B-1
<b><u>Annex C – proposed amendment to the amended and restated certificate of incorporation of inspiremd, inc.</u></b>	ANNEX c-1

**InspireMD, Inc.**

4 Menorat Hamaor St.

Tel Aviv, Israel 6744832

Telephone: (888) 776-6804

**PROXY STATEMENT**

**FOR**

**SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held October 3, 2017**

*Unless the context otherwise requires, references in this Proxy Statement to “we,” “us,” “our,” the “Company,” or “InspireMD” refer to InspireMD, Inc., a Delaware corporation, and its direct and indirect subsidiaries. In addition, unless the context otherwise requires, references to “stockholders” are to the holders of our voting securities, which consist of our common stock, par value \$0.0001 per share.*

*All amounts set forth in this proxy statement are adjusted for the 1-for-25 reverse stock split of our common stock that occurred on October 7, 2016.*

The accompanying proxy is solicited by the board of directors on behalf of InspireMD, Inc., a Delaware corporation, to be voted at the special meeting of stockholders of the Company (the “Special Meeting”) to be held on October 3, 2017, at the time and place and for the purposes set forth in the accompanying Notice of Special Meeting of Stockholders (the “Notice”) and at any adjournment(s) or postponement(s) of the Special Meeting. This Proxy Statement and accompanying form of proxy are expected to be first sent or given to stockholders on or about August 29, 2017.



The executive offices of the Company are located at, and the mailing address of the Company is, 4 Menorat Hamaor St., Tel Aviv, Israel 6744832.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON October 3, 2017:**

**Our official Notice of Special Meeting of Stockholders, Proxy Statement and Proxy Card are available at:**

**[www.proxyvote.com](http://www.proxyvote.com)**

## **ABOUT THE SPECIAL MEETING**

### **What is a proxy?**

A proxy is another person that you legally designate to vote your stock. If you designate someone as your proxy in a written document, that document is also called a “proxy” or a “proxy card.” If you are a street name holder, you must obtain a proxy from your broker or nominee in order to vote your shares in person at the Special Meeting.

### **What is a proxy statement?**

A proxy statement is a document that regulations of the Securities and Exchange Commission require that we give to you when we ask you to sign a proxy card to vote your stock at the Special Meeting.

### **What is the purpose of the Special Meeting?**

At our Special Meeting, stockholders will act upon the matters outlined in the Notice, including the following:

- (1) Approval of the Fourth Amendment to the InspireMD, Inc. 2013 Long-Term Incentive Plan (the “2013 Plan”) to increase the number of shares of common stock available for issuance pursuant to awards under such plan by 40,000,000 shares, to a total of 40,690,800 shares of common stock, and reapproval of the material terms of the plan’s performance goals in order to allow certain awards granted thereunder to be eligible for exemption from the \$1,000,000 deduction limit imposed by Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Incentive Plan Proposal”).
- (2) Authorization of the board of directors, in its discretion but prior to the annual meeting of our stockholders in 2018, 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 in the range of 1-for-10 to 1-for-25, such ratio to be determined by the board of directors (the “Reverse Stock Split Proposal”).
- (3) Approval of an adjournment of the Special Meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of any of the foregoing proposals (the “Adjournment Proposal”).

**What is “householding” and how does it affect me?**

With respect to eligible stockholders who share a single address, we may send only one Proxy Statement to that address unless we receive instructions to the contrary from any stockholder at that address. This practice, known as “householding,” is designed to reduce our printing and postage costs. However, if a stockholder of record residing at such address wishes to receive a separate Proxy Statement in the future, he or she may contact InspireMD, Inc., 4 Menorat Hamaor St., Tel Aviv, Israel 6744832, Attn: Investor Relations or call (888) 776-6804 and ask for Investor Relations. Eligible stockholders of record receiving multiple copies of our Notice or Proxy Statement can request householding by contacting us in the same manner. Stockholders who own shares through a bank, broker or other nominee can request householding by contacting the nominee.

We hereby undertake to deliver promptly, upon written or oral request, a copy of the Notice or Proxy Statement to a stockholder at a shared address to which a single copy of the document was delivered. Requests should be directed to Investor Relations at the address or phone number set forth above.

**What should I do if I receive more than one set of voting materials?**

You may receive more than one set of voting materials, including multiple copies of the Notice or this Proxy Statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate notice or voting instruction card for each brokerage account in which you hold shares. Similarly, if you are a stockholder of record and hold shares in a brokerage account, you will receive a Notice for shares held in your name and a notice or voting instruction card for shares held in street name. Please follow the directions provided in the Notice and each additional notice or voting instruction card you receive to ensure that all your shares are voted.

**What is the record date and what does it mean?**

The record date to determine the stockholders entitled to notice of and to vote at the Special Meeting is the close of business on August 28, 2017 (the “Record Date”). The Record Date is established by the board of directors as required by Delaware law. On the Record Date, [ ] shares of common stock were issued and outstanding.

**Who is entitled to vote at the Special Meeting?**

Holders of common stock at the close of business on the Record Date may vote at the Special Meeting.

**What are the voting rights of the stockholders?**

Each holder of common stock is entitled to one vote per share of common stock on all matters to be acted upon at the Special Meeting.

**What is the quorum requirement?**

The presence, in person or by proxy, of the holders of a majority of the shares of the stock entitled to vote at the Special Meeting is necessary to constitute a quorum to transact business. If a quorum is not present or represented at the Special Meeting, the stockholders entitled to vote at the Special Meeting, present in person or by proxy, may adjourn the Special Meeting from time to time without notice or other announcement until a quorum is present or represented.

**What is the difference between a stockholder of record and a “street name” holder?**

If your shares are registered directly in your name with Action Stock Transfer Corporation, our stock transfer agent, you are considered the stockholder of record with respect to those shares. The Notice has been sent directly to you by us.

If your shares are held in a stock brokerage account or by a bank or other nominee, the nominee is considered the record holder of those shares. You are considered the beneficial owner of those shares, and your shares are held in “street name.” A notice or Proxy Statement and voting instruction card have been forwarded to you by your nominee. As the beneficial owner, you have the right to direct your nominee concerning how to vote your shares by using the voting instructions they included in the mailing or by following their instructions for voting by telephone or the Internet.

**What is a broker non-vote?**

A broker non-vote occurs when shares are held indirectly through a broker, bank or other intermediary on behalf of a beneficial owner (referred to as held in “street name”) and the broker submits a proxy but does not vote for a matter because the broker has not received voting instructions from the beneficial owner and (i) the broker does not have discretionary voting authority on the matter or (ii) the broker chooses not to vote on a matter for which it has discretionary voting authority. Under the rules of the New York Stock Exchange (the “NYSE”) that govern how brokers may vote shares for which they have not received voting instructions from the beneficial owner, brokers are permitted to exercise discretionary voting authority only on “routine” matters when voting instructions have not been timely received from a beneficial owner.

Your broker does not have discretionary authority to vote your shares with respect to the Incentive Plan Proposal (Proposal 1) in the absence of specific instructions from you.

With respect to the Reverse Stock Split Proposal (Proposal 2) or the Adjournment Proposal (Proposal 3), your broker will be permitted to exercise discretionary voting authority to vote your shares on such proposals if you do not provide your broker with instructions on such proposals.

### **How do I vote my shares?**

Your vote is very important to us and we hope that you will attend the Special Meeting. However, whether or not you plan to attend the Special Meeting, please vote by proxy in accordance with the instructions on your proxy card or voting instruction card (from your broker or other intermediary). There are three convenient ways of submitting your vote:

***By Telephone or Internet*** - All record holders can vote by touchtone telephone from the U.S. using the toll free telephone number on the proxy card, or over the Internet, using the procedures and instructions described on the proxy card. "Street name" holders may vote by telephone or Internet if their bank, broker or other nominee makes those methods available, in which case the bank, broker or other nominee will enclose the instructions with the proxy materials. The telephone and Internet voting procedures are designed to authenticate stockholders' identities, to allow stockholders to vote their shares, and to confirm that their instructions have been recorded properly.

***In Person*** - All record holders may vote in person at the Special Meeting. "Street name" holders may vote in person at the Special Meeting if their bank, broker or other nominee has furnished a legal proxy. If you are a "street name" holder and would like to vote your shares by proxy, you will need to ask your bank, broker or other nominee to furnish you with a nominee issued proxy. You will need to bring the nominee issued proxy with you to the Special Meeting and hand it in with a signed ballot that will be provided to you at the Special Meeting. You will not be able to vote your shares without a nominee issued proxy. Note that a broker letter that identifies you as a stockholder is not the same as a nominee issued proxy.

***By Written Proxy*** - All record holders can vote by written proxy card, if they have requested to receive printed proxy materials. If you are a "street name" holder and you request to receive printed proxy materials, you will receive a written proxy card and a voting instruction card from your bank, broker or other nominee.

The board of directors has appointed James Barry, Ph.D., president, chief executive officer and director, to serve as the proxy for the Special Meeting.

If you complete all of the proxy card except one or more of the voting instructions, then the designated proxies will vote your shares as to which you provide no voting instructions in the manner described under "What if I do not specify how I want my shares voted?" below. We do not anticipate that any other matters will come before the Special Meeting, but if any other matters properly come before the meeting, then the designated proxies will vote your shares in accordance with applicable law and their judgment.

If you hold your shares in “street name,” and complete the voting instruction card provided by your broker or other intermediary except with respect to one or more of the voting instructions, then your broker may be unable to vote your shares with respect to the proposal as to which you provide no voting instructions. See “What is a broker non-vote?” above.

Even if you currently plan to attend the Special Meeting, we recommend that you vote by telephone or Internet or return your proxy card or voting instructions as described above so that your votes will be counted if you later decide not to attend the Special Meeting or are unable to attend.

**Who counts the votes?**

All votes will be tabulated by James Barry, Ph.D., the inspector of election appointed for the Special Meeting. Each proposal will be tabulated separately.

**What are my choices when voting?**

As to each of the Incentive Plan Proposal (Proposal 1), the Reverse Stock Split Proposal (Proposal 2), and the Adjournment Proposal (Proposal 3), stockholders may vote for the proposal, against the proposal, or abstain from voting on the proposal.

**What are the board of directors' recommendations on how I should vote my shares?**

The board of directors recommends that you vote your shares as follows:

Proposal 1—**FOR** the Incentive Plan Proposal.

Proposal 2—**FOR** the Reverse Stock Split Proposal.

Proposal 3—**FOR** the Adjournment Proposal.

**What if I do not specify how I want my shares voted?**

If you are a record holder who returns a completed proxy card that does not specify how you want to vote your shares on one or more proposals, the proxies will vote your shares for each proposal as to which you provide no voting instructions, and such shares will be voted in the following manner:

Proposal 1—**FOR** the Incentive Plan Proposal.

Proposal 2—**FOR** the Reverse Stock Split Proposal.



Proposal 3—**FOR** the Adjournment Proposal.

If you are a street name holder and do not provide voting instructions on one or more proposals, your bank, broker or other nominee may be unable to vote those shares. See “What is a broker non-vote?” above.

**Can I change my vote?**

Yes. If you are a record holder, you may revoke your proxy at any time by any of the following means:

Attending the Special Meeting and voting in person. Your attendance at the Special Meeting will not by itself revoke a proxy. You must vote your shares by ballot at the Special Meeting to revoke your proxy.

Voting again by telephone or over the Internet (only your latest telephone or Internet vote submitted prior to the Special Meeting will be counted).

Completing and submitting a new valid proxy bearing a later date.

Giving written notice of revocation to the Company addressed to Craig Shore, chief financial officer, chief administrative officer, treasurer and secretary, at the Company’s address above, which notice must be received before noon, New York time on October 2, 2017.

If you are a street name holder, your bank, broker or other nominee should provide instructions explaining how you may change or revoke your voting instructions.

**What percentage of the vote is required to approve each proposal?**

Assuming the presence of a quorum, approval of the Reverse Stock Split Proposal (Proposal 2) will require the affirmative vote of the holders of a majority of the shares of our common stock outstanding and entitled to vote on such proposal at the Special Meeting.

Approval of each of the Incentive Plan Proposal (Proposal 1) and the Adjournment Proposal (Proposal 3) will require the affirmative vote of the votes cast on each such proposal.

**How are abstentions and broker non-votes treated?**

Abstentions are included in the determination of the number of shares present at the Special Meeting for determining a quorum at the meeting. Abstentions will have the same effect as a vote against the Reverse Stock Split Proposal (Proposal 2) and the Incentive Plan Proposal (Proposal 1).

Broker non-votes, if any, are included in the determination of the number of shares present at the Special Meeting for determining a quorum at the meeting. Broker non-votes will have no effect upon the approval of the Incentive Plan Proposal (Proposal 1). With respect to the Reverse Stock Split Proposal (Proposal 2) or the Adjournment Proposal (Proposal 3), under the rules of the New York Stock Exchange, broker non-votes are not applicable because such proposal is considered to be a “routine” matter, and, therefore, a broker holding shares for a beneficial owner will have discretionary authority to vote those shares for such proposal in the absence of voting instructions from the beneficial owner and may vote “FOR” each of the Reverse Stock Split Proposal and the Adjournment Proposal.

**Do I have any dissenters’ or appraisal rights with respect to any of the matters to be voted on at the Special Meeting?**

No. None of our stockholders has any dissenters’ or appraisal rights with respect to the matters to be voted on at the Special Meeting.

**What are the solicitation expenses and who pays the cost of this proxy solicitation?**

Our board of directors is asking for your proxy and we will pay all of the costs of asking for stockholder proxies. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of common stock and collecting voting instructions. We may use officers and employees of the Company, as well as a proxy solicitation firm hired by the Company, to ask for proxies, as described below.

**Is this Proxy Statement the only way that proxies are being solicited?**

No. In addition to the solicitation of proxies by use of the mail, officers and employees of the Company, as well as any proxy solicitation firm hired by the Company, may solicit the return of proxies, either by mail, telephone, fax, e-mail or through personal contact. These officers and employees will not receive additional compensation for their efforts but will be reimbursed for out-of-pocket expenses. Brokerage houses and other custodians, nominees and fiduciaries, in connection with shares of the common stock registered in their names, will be requested to forward solicitation material to the beneficial owners of shares of common stock.

**Are there any other matters to be acted upon at the Special Meeting?**

Management does not intend to present any business at the Special Meeting for a vote other than the matters set forth in the Notice and has no information that others will do so. If other matters requiring a vote of the stockholders properly come before the Special Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the shares represented by the proxies held by them in accordance with applicable law and their judgment on such matters.

**Where can I find voting results?**

The Company expects to publish the voting results in a Current Report on Form 8-K, which it expects to file with the Securities and Exchange Commission within four business days following the Special Meeting.

**Who can help answer my questions?**

The information provided above in this “Question and Answer” format is for your convenience only and is merely a summary of the information contained in this Proxy Statement. We urge you to carefully read this entire Proxy Statement, including the documents we refer to in this Proxy Statement. If you have any questions, or need additional material, please feel free to contact Craig Shore by email at [craigs@inspiremd.com](mailto:craigs@inspiremd.com) or phone at (888) 776-6804.

**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 August 15, 2017, 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 6744832. As of August 15, 2017, we had 7,465,889 shares outstanding.

Name of Beneficial Owner	<b>Number of Shares Beneficially Owned<sup>(1)</sup></b>		<b>Percentage Beneficially Owned<sup>(1)</sup></b>	
<b>5% Owners</b>				
Sol J. Barer, Ph.D.	549,629	(2)	6.90	%
<b>Officers and Directors</b>				
Craig Shore	56,713	(3)	*	
Alan W. Milinazzo	5,935	(4)	*	
James Barry, Ph.D.	48,426	(5)	*	
Michael Berman	5,235	(6)	*	
Campbell Rogers, M.D.	4,826	(7)	*	
Paul Stuka	204,185	(8)	2.67	%
Thomas Kester	280	(9)	*	
Agustin V. Gago	—		*	
All directors and executive officers as a group (8 persons)	325,600		4.17	%

\* Represents ownership of less than one percent.

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 August 15 2017. Shares (1) 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.

Includes (i) options to purchase 28,494 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017, (ii) warrants to purchase 160,667 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017, and (iii) 308,000 shares of common stock issuable upon conversion of Series B Convertible Preferred Stock that are currently convertible within 60 days of August (2) 15, 2017. Does not include 895,113 shares of common stock issuable upon conversion of Series B Convertible Preferred Stock, which shares were excluded because the certificate of designation for the Series B Convertible Preferred Stock contain provisions that block conversion if such conversion will result in the holder having beneficial ownership of more than 4.99% of our common stock.

Consists of (i) 18,240 shares of common stock and (ii) 38,473 shares of restricted stock granted to employees under (3) the Israeli Appendix of the 2013 Plan held in trust, and with respect to which Mr. Shore was granted a proxy with the right to vote such shares at his discretion.

Consists of (i) 5,396 shares of common stock and (ii) warrants to purchase 539 shares of common stock that are (4) currently exercisable or exercisable within 60 days of August 15, 2017. Mr. Milinazzo served as our president, chief executive officer and director until his resignation from such positions on June 6, 2016.

(5) Includes warrants to purchase 39 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017.

(6) Includes options to purchase 5,114 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017.

(7) Includes options to purchase 4,316 shares of common stock and warrants to purchase 170 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017.

Paul Stuka is the principal and managing member of Osiris Investment Partners, L.P., and, as such, has beneficial ownership of (A) (i) 10,683 shares of common stock, (ii) warrants to purchase 11,103 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017, and (iii) 54,682 shares of common stock issuable upon conversion of Series B Convertible Preferred Stock that are currently convertible within 60 (8) days of August 15, 2017, held by Osiris Investment Partners, L.P., in addition to (B) personally holding (i) options to purchase 6,233 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017, (ii) warrants to purchase 12,120 shares of common stock that are currently exercisable or exercisable within 60 days of August 15, 2017, and (iii) 109,364 shares of common stock issuable upon conversion of Series B Convertible Preferred Stock that are currently convertible within 60 days of August 15, 2017.

(9) Consists of shares of common stock.

## **EXECUTIVE COMPENSATION**

### **Compensation Philosophy and Process**

The responsibility for establishing, administering and interpreting our policies governing the compensation and benefits for our executive officers lies with our compensation committee and our board of directors. During the review of named executive officer compensation for 2016, the compensation committee did not retain the services of any compensation consultants.

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. In 2016, we designed our executive

compensation program to achieve the following objectives:

provide a competitive compensation package that enables us to attract and retain superior management personnel;

provide incentives that reward the achievement of performance goals that directly correlate to the enhancement of stockholder value and facilitate executive retention;

reward our officers fairly for their role in our achievements; and

align executives' interests with those of stockholders through long-term incentives linked to specific performance.

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. 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.

### Summary Compensation Table

The table below sets forth the compensation earned by our named executive officers for the twelve month period ended December 31, 2016 and 2015.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Restricted	Option	All Other		Total (\$)
				Stock Awards (\$) <sup>(1)</sup>	Awards (\$) <sup>(1)</sup>	Compensation (\$)		
James Barry, Ph.D. President and Chief Executive Officer	2016	288,958	106,458 <sup>(2)</sup>	334,871	235,783	25,820	<sup>(3)</sup>	991,890
	2015	300,333 <sup>(4)</sup>	37,500 <sup>(5)</sup>	127,167 <sup>(6)</sup>	16,740	19,936	<sup>(3)</sup>	532,093
Craig Shore Chief Financial Officer, Secretary and Treasurer	2016	290,341 <sup>(7)(8)</sup>	50,000 <sup>(7)(9)</sup>	83,718	60,711	95,343	<sup>(7)(10)</sup>	580,113 <sup>(7)</sup>
	2015	224,481 <sup>(7)</sup>	17,349 <sup>(5)(7)</sup>	33,750	33,479	74,318	<sup>(7)(10)</sup>	383,377 <sup>(7)</sup>
Agustin Gago Executive Vice President And Chief Commercial Officer	2016	51,225	25,000 <sup>(11)</sup>	-	61,241	-		137,466
Alan Milinazzo <i>Former President and Chief Executive Officer</i> <sup>(12)</sup>	2016	242,086 <sup>(13)</sup>	-	-	-	25,312	<sup>(14)</sup>	267,398
	2015	225,000 <sup>(15)</sup>	45,833 <sup>(5)</sup>	428,826 <sup>(3)</sup>	131,221	20,462	<sup>(14)</sup>	851,342

(1) The amounts reflect the dollar amounts recognized for financial statement reporting purposes with respect to the twelve month periods ended December 31, 2016 and 2015 in accordance with FASB ASC Topic 718. Fair value is based on the Black-Scholes option pricing model using the fair value of the underlying shares at the measurement date. For additional discussion of the valuation assumptions used in determining stock-based compensation and the grant date fair value for stock options, see "Management's Discussion and Analysis of Financial Condition and



Results of Operations — Critical Accounting Policies — Share-based compensation” and Note 2-“Significant Accounting Policies” and Note 10-“Equity” to the Consolidated Financial Statements for the Twelve Months Ended December 31, 2016 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 16, 2017.

(2) Pursuant to the fourth amendment of Dr. Barry’s employment agreement dated June 6, 2016.

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

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

(5) Bonuses for the 2015 calendar year were approved by the compensation committee in July 2015.

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

Compensation amounts received in non-U.S. currency have been converted into U.S. dollars using the average exchange rate for the applicable period, except for bonus amounts which have been converted into U.S. dollars using 3.846 NIS per dollar and 3.769 NIS per dollar, which were the exchange rates as of June 30, 2016 and 2015. The average exchange rate for the twelve month period ended December 31, 2016 and 2015 were 3.8409 NIS per dollar and 3.884 NIS per dollar, respectively.

(8) Mr. Shore's salary for 2016 includes cash paid in lieu of accrued vacation of \$51,678.

(9) Bonuses for the 2016 calendar year were approved by the compensation committee in July 2016.

Mr. Shore's other compensation consisted solely of benefits in the twelve months ended December 31, 2016 and 2015. In each of the periods reported, Mr. Shore's benefits included our contributions to his severance, pension, vocational studies and disability funds, an annual recreation payment, a company car or car allowance and cell phone, and a daily food allowance.

(11) Pursuant to Mr. Gago's employment agreement, dated October 24, 2016.

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

(13) Mr. Milinazzo's salary for 2016 includes cash paid in lieu of accrued vacation of \$31,818.

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

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

## **Agreements with Executive Officers**

### ***James Barry, Ph.D.***

On July 14, 2014, we entered into an employment agreement with James Barry to serve as our executive vice president and chief operating officer, which was first amended on January 5, 2015, and further amended on February 22, 2015 and on March 28, 2016, and on June 6, 2016, our board of directors appointed Dr. Barry as our president and chief executive officer, and further amended the employment agreement. Dr. Barry was previously a director and continues his role as a director. The term of Dr. Barry's employment will continue until May 31, 2017, with Dr. Barry resigning as a member of the board of directors at the end of such term if requested by us, and in the event that the

term is not extended beyond May 31, 2017 by mutual agreement of the parties and we do not offer Dr. Barry a position as chief executive officer and/or chief operating officer on the same or more favorable terms with a base salary that is at least 10% greater than his current base salary, Dr. Barry's termination will be deemed a termination without cause.

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

Prior to his appointment as our president and chief executive officer, Dr. Barry was also eligible to receive an annual bonus of up to \$225,000 upon the achievement of reasonable target objectives and performance goals, to be determined by the board of directors in consultation with Dr. Barry on or before the end of the first quarter of the fiscal year to which the bonus relates and, in the event actual performance exceeds the goals, the board may, in its sole discretion, pay Dr. Barry bonus compensation of more than \$225,000. Pursuant to the amendment to Dr. Barry's employment agreement upon his appointment as our president and chief executive director, (i) effective as of June 6, 2016, Dr. Barry is eligible to receive annual bonus compensation in an amount equal to 100% of his base salary upon the achievement of reasonable target objectives and performance goals as may be determined by the board of directors in consultation with Dr. Barry and (ii) on the first to occur of (a) the first payroll period that is on or after the 20th business day following closing of a transaction with investors where we raise an aggregate of \$5 million or (b) March 15, 2017, Dr. Barry will receive a lump-sum retention bonus in an amount equal to \$106,458, subject to Dr. Barry's continued employment through such date, which amount was paid on July 14, 2016. In addition, Dr. Barry is eligible to receive such additional bonus or incentive compensation as the board may establish from time to time in its sole discretion.

On January 5, 2015, we amended Dr. Barry's employment agreement to provide that, for a limited period of time to be mutually agreed to by us and Dr. Barry, Dr. Barry will receive 50% of his base salary in cash payments, with the remaining 50% to be paid in an equivalent amount of shares of restricted common stock, payable and granted in equal installments in accordance with our normal payroll practices. These shares of restricted stock were to vest immediately and be valued as of the closing price of our common stock on the date of grant. Notwithstanding the foregoing agreement, at Dr. Barry's request, no shares of restricted common stock were granted to Dr. Barry pursuant to this amendment. Rather, we and Dr. Barry determined that it would be in our mutual best interest to make a single grant of shares of restricted common stock to Dr. Barry having a fair market value, as of the date of grant, equal to 50% of his annual base salary, with such shares vesting on the first anniversary of the date of grant, as opposed to making bi-weekly grants of restricted common stock to Dr. Barry. As such, , on January 26, 2015, we issued 761 shares of restricted common stock valued at \$180 per share, representing the fair market value of our common stock as of the market close on January 26, 2015, in lieu of 50% of his base salary for his employment in 2015, to vest on January 26, 2016.

On February 22, 2015, we further amended Dr. Barry's employment agreement to memorialize the payroll adjustment that was made to Dr. Barry's manner of salary payment on January 26, 2015 and to provide certain additional changes. Specifically, this amendment provided that, until the earlier of (1) September 30, 2015 and (2) we raise an aggregate of \$5 million from investors, Dr. Barry shall receive 50% of his base salary in cash payments, with the remaining 50% having been paid to Dr. Barry on January 26, 2015, through the issuance of 19,011 shares of restricted stock as discussed above. Notwithstanding the foregoing, with Dr. Barry's consent, Dr. Barry continued to receive only 50% of his base salary in cash from March 9, 2015, the date of the closing of our March 2016 offering, from which we received gross proceeds of approximately \$13.7 million, until April 30, 2015. As we commenced full cash payment of Dr. Barry's salary on April 30, 2015, Dr. Barry forfeited 423 shares of restricted stock on May 1, 2015, which represented the shares of restricted common stock previously granted to Dr. Barry to cover 50% of his base salary from May 1, 2015 through December 31, 2015. The remaining such shares of restricted stock issued to Dr. Barry on January 26, 2015 in lieu of cash base salary fully vested on January 26, 2016.

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

On June 6, 2016, in connection with Dr. Barry's appointment as our president and chief executive officer, we further amended Dr. Barry's employment agreement to provide that, for the period beginning on June 1, 2016 and ending on the earlier of (i) the closing of a transaction with investors where we raise an aggregate of \$5 million and (ii) March 15, 2017, Dr. Barry will receive 50% of his base salary in cash payments, payable in accordance with our regular payroll practices, with the remaining 50% of his base salary paid in a lump-sum payment on the first to occur of (a) the first payroll period that is on or after the 20th business day following such transaction or (b) March 15, 2017. In addition, within 20 business days of the closing of the transaction with investors where we raise an aggregate of \$5 million, which occurred on July 7, 2016, Dr. Barry was to be granted, subject to the board's approval and Dr. Barry's continued employment through the applicable grant date, (i) a nonqualified stock option relating to the number of shares of our common stock equal to 2% of outstanding common stock on the date of the closing of such transaction and (ii) an award of a number of restricted shares of our common stock equal to 2% of outstanding common stock on the date of the closing of such transaction, in each case, subject to the terms and conditions of the 2013 Plan and a nonqualified stock option agreement and a restricted stock award agreement to be entered into by us and Dr. Barry.

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

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

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

Pursuant to an option cancellation and release agreement, dated January 26, 2016, between us and Dr. Barry, Dr. Barry agreed to cancel options to purchase 2,709 shares of our common stock at exercise prices ranging from \$180 to \$1,950 previously granted to him. In exchange for the cancellation of Dr. Barry's options, we granted to Dr. Barry, pursuant to the 2013 Plan and the 2013 Employee Stock Incentive Plan, which is a sub-plan to the 2013 Plan, one

share of our common stock as of January 26, 2016.

*Craig Shore*

We have been a party to an employment agreement with Craig Shore since November 28, 2010. On May 5, 2014, we entered into an amended and restated employment agreement with Mr. Shore, which was amended on January 5, 2015 and on July 25, 2016. The employment agreement, as amended, has an initial term that ends on April 20, 2020 and will automatically renew for additional one-year periods on April 21, 2020 and on each April 21<sup>st</sup> thereafter unless either party gives the other party written notice of its election not to extend such employment at least six months prior to the next April 21<sup>st</sup> renewal date. If a change in control occurs when less than two full years remain in the initial term or during any renewal term, the employment agreement will automatically be extended for two years from the change in control date and will terminate on the second anniversary of the change in control date.

Mr. Shore was initially entitled to a monthly gross salary of \$8,750, which amount had increased to \$10,620 by 2012. In addition, Mr. Shore's annual base salary was increased to \$175,000 on April 22, 2013, retroactive to January 1, 2013, and to \$220,200 in May 2014, retroactive to January 1, 2014. Under the terms of the employment agreement, as amended by the second amendment to the amended and restated employment agreement, dated July 25, 2016, Mr. Shore is entitled to an annual base salary of at least \$250,000. Such amount may be reduced only as part of an overall cost reduction program that affects all of our senior executives and does not disproportionately affect Mr. Shore, so long as such reduction does not reduce the base salary to a rate that is less than 90% of the amount set forth above (or 90% of the amount to which it has been increased). The base salary will be reviewed annually by our chief executive officer for increase (but not decrease, except as permitted as part of an overall cost reduction program) as part of our annual compensation review. Mr. Shore is also eligible to receive an annual bonus in an amount equal to 60% of his then-annual salary upon the achievement of reasonable target objectives and performance goals, to be determined by the board of directors in consultation with Mr. Shore. On January 5, 2015, we amended Mr. Shore's amended and restated employment agreement to remove from the amended and restated employment agreement the provision disallowing payment of annual bonus compensation if Mr. Shore achieved less than 70% of the target objectives and performance goals determined by our board of directors in consultation with him. Pursuant to such amendment, Mr. Shore is eligible to receive the percentage of his annual bonus corresponding to the percentage of his achievement of such target objectives and performance goals. The annual bonus will be reviewed annually by our chief executive officer for increase in the amount of the percentage of his then-base salary (but not decrease), as well as the criteria and the goals, as part of our annual compensation review. In addition, Mr. Shore is eligible to receive such additional bonus or incentive compensation as the board may establish from time to time in its sole discretion. Mr. Shore will also be considered for grants of equity awards each year as part of the board's annual compensation review, which will be made at the sole discretion of the board of directors. Each grant will, with respect to any awards that are options, have an exercise price equal to the fair market value of our common stock as of the date of grant, and will be subject to a three-year vesting period subject to Mr. Shore's continued service with us, with one-third of each additional grant vesting equally on the first, second, and third anniversary of the date of grant for such awards.

The second amendment to the amended and restated employment agreement provides a grant of equity awards to Mr. Shore on or within 10 business days of July 25, 2016 (the "Date of Grant"), with respect to an aggregate number of shares of our common stock equal to 1% of our outstanding common stock and common stock issuable upon the conversion of our outstanding Series B Convertible Preferred Stock on the Date of Grant, 50% of which shall be



granted as restricted stock and 50% of which shall be granted as nonqualified stock options, which will be subject to the terms and conditions of the 2013 Plan and a nonqualified stock option agreement and a restricted stock award agreement to be entered into by us and Mr. Shore and a one-time lump-sum cash bonus in an amount equal to \$50,000, payable on or before September 1, 2016.

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

Mr. Shore may terminate his employment for good reason by delivering a notice of termination to us 30 days in advance of the date of termination; provided, however, that Mr. Shore agreed to not terminate his employment for good reason until he has given us at least 30 days' notice from which to cure the circumstances set forth in the notice of termination constituting good reason, and if such circumstances are not cured by the 30th day, Mr. Shore's employment shall terminate on such date.

Pursuant to terms contained in Mr. Shore's stock option and restricted stock award agreements, in the event of a change of control of our company, the stock options and restricted stock granted to Mr. Shore that were unvested will vest immediately upon such change of control, in the case of stock options, if such stock options are not assumed or substituted by the surviving company.

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

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

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

The employment agreement also contains certain standard noncompetition, non-solicitation, confidentiality, and assignment of inventions requirements for Mr. Shore.

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

Pursuant to an option cancellation and release agreement, dated January 26, 2016, between us and Mr. Shore, Mr. Shore agreed to cancel options to purchase 1,776 shares of our common stock at exercise prices ranging from \$180 to \$1,232.12 previously granted to him. In exchange for the cancellation of Mr. Shore's options, we granted to Mr. Shore, pursuant to the 2013 Plan and the 2013 Employee Stock Incentive Plan, which is a sub-plan to the 2013 Plan, one share of our common stock as of January 26, 2016.

### *Agustin V. Gago*

On October 24, 2016, we entered into an employment agreement with Agustin V. Gago to serve as our executive vice president and chief commercial officer. The initial term of Mr. Gago's employment ends on October 23, 2018, unless earlier terminated or extended for additional one-year periods on October 23, 2018, and on each and every October 23 thereafter, provided that either party may elect not to extend the term of the employment by prior written notice at least two months prior to the expiration date or the next renewal date.

Pursuant to Mr. Gago's employment agreement, Mr. Gago is entitled to an annual base salary of \$275,000, which shall automatically increase to \$300,000, effective as of January 1, 2018. Mr. Gago is eligible to receive an annual bonus in an amount up to 50% of his then-base salary, commencing in 2017, based upon the achievement of reasonable target objectives and performance goals as may be determined by our president and chief executive officer and approval of the board of directors after consultation with Mr. Gago. The target objectives shall be based 60% on revenue achievement, 20% on marketing objectives, and 20% on corporate objectives. In addition, in the event that Mr. Gago and his team shall exceed quarterly revenue targets determined by our president and chief executive officer and approved by the board of directors after consultation with Mr. Gago, Mr. Gago may receive additional escalating amounts included as part of the annual bonus based upon the payment scales determined by our president and chief executive officer and approved by the board of directors after consultation with Mr. Gago. Mr. Gago will receive a one-time bonus of \$25,000 in the event that our net sales for the fourth quarter of 2016 exceed our forecast by at least 20%. Mr. Gago is also entitled to a one-time bonus of \$25,000, payable on or before November 15, 2016, which was paid on October 31, 2016. In addition, pursuant to Mr. Gago's employment agreement, on October 24, 2016, Mr. Gago was granted (i) a stock option to purchase 13,441 shares of our common stock at an exercise price of \$1.86, vesting on the first anniversary of the date of grant (subject to forfeiture upon termination of employment); and (ii) a stock option to purchase 32,000 shares of our common stock at an exercise price of \$1.86, vesting in equal installments on the first and second anniversary of the date of grant, each subject to the terms and conditions of the 2013 Plan, and our form of option award agreement. Mr. Gago may also be eligible to receive certain stock options or similar stock-based rights as set forth separately in those certain agreements and subject to the terms and conditions of the 2013 Plan.

Either party may terminate the agreement at any time, provided that Mr. Gago provides 90 day's prior written notice to us of his voluntary resignation and we provide 90 days' prior written notice of termination by us without cause (as defined in Mr. Gago's employment agreement) to Mr. Gago. In addition, we may terminate Mr. Gago's employment for cause, after a 30 day cure period, if the circumstances are curable. If we terminate Mr. Gago's employment without cause or Mr. Gago's death, Mr. Gago is entitled to (A) any unpaid base salary accrued through the termination date,

any accrued and unpaid vacation pay and any unreimbursed expenses properly incurred prior to the termination date; (B) a severance pay equal to Mr. Gago's base salary for 12 months; (C) any earned but unpaid annual bonus relating to the calendar year prior to the calendar year in which the termination date occurs; and (D) to the fullest extent permitted by our then-current benefit plans, continuation of certain insurance benefits for the lesser of 12 months after termination of employment or until Mr. Gago secures coverage from new employment. Mr. Gago has no specific right to terminate Mr. Gago's employment agreement as a result of a change in control (as defined in the 2013 Plan); however, if following a change in control, during the term of Mr. Gago's employment, if we terminate Mr. Gago without cause, or the purchaser or surviving entity following the change in control does not offer Mr. Gago a comparable offer of employment, all stock options or similar stock-based rights granted to Mr. Gago shall vest in full and become immediately exercisable.

Mr. Gago's employment agreement also contains certain noncompetition, non-solicitation, non-disparagement, confidentiality and assignment of work product requirements for Mr. Gago.

*Alan Milinazzo*

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

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

On January 5, 2015, we amended Mr. Milinazzo's employment agreement to provide that, for a limited period of time to be mutually agreed to by us and Mr. Milinazzo, Mr. Milinazzo would receive 50% of his base salary in cash payments, with the remaining 50% to be paid in an equivalent amount of shares of restricted common stock, payable and granted in equal installments in accordance with our normal payroll practices. These shares of restricted stock were to vest immediately and be valued as of the closing price of our common stock on the date of grant. Notwithstanding the foregoing agreement, at Mr. Milinazzo's request, no shares of restricted common stock were granted to Mr. Milinazzo pursuant to this amendment. Rather, we and Mr. Milinazzo determined that it would be in our mutual best interest to make a single grant of shares of restricted common stock to Mr. Milinazzo having a fair market value, as of the date of grant, equal to 50% of his annual base salary, with such shares vesting on the first anniversary of the date of grant, as opposed to making bi-weekly grants of restricted common stock to Mr. Milinazzo. As such, on January 26, 2015, we issued 1,250 shares of restricted common stock valued at \$180 per share, representing the fair market value of our common stock as of the market close on January 26, 2015, in lieu of 50% of his base salary for his employment in 2015, to vest on January 26, 2016.

On June 29, 2015, we further amended Mr. Milinazzo's employment agreement to memorialize the payroll adjustment that was made to Mr. Milinazzo's manner of salary payment on January 26, 2015, and to provide certain additional changes. Specifically, this amendment provided that, until we raise an aggregate of \$5 million from investors, Mr. Milinazzo would receive with respect to his employment in 2015, 50% of his base salary in cash payments, with the remaining 50% having been paid to Mr. Milinazzo on January 26, 2015, through the issuance of 1,250 shares of restricted common stock as discussed above, which would be subsequently adjusted based upon the volume-weighted average price of our common stock during the calendar year ended December 31, 2015 (or during the period from January 2, 2015 through his termination date if Mr. Milinazzo's employment is terminated upon his death or disability, by Mr. Milinazzo for good reason, or by us without cause prior to December 31, 2015) to represent the equivalent of 50% of Mr. Milinazzo's base salary in 2015. On December 31, 2015, we issued an additional 2,553 shares of restricted common stock as an adjustment pursuant to such amendment, as the value of our common stock declined following the grant to Mr. Milinazzo on January 26, 2015.

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

In accordance with Mr. Milinazzo's employment agreement, on January 3, 2013, we granted Mr. Milinazzo a nonqualified stock option to purchase 2,104 shares of our common stock, made pursuant to a nonqualified stock option agreement, an incentive stock option to purchase 297 shares of our common stock, made pursuant to an incentive stock option agreement, and 1,600 shares of restricted stock, which are subject to forfeiture until the vesting of such shares, made pursuant to a restricted stock award agreement. The options have an exercise price of \$1,012.5, which was the fair market value of our common stock on the date of grant. The options were subject to a three-year vesting period subject to Mr. Milinazzo's continued service with us, with one-thirty-sixth ( $1/36^{\text{th}}$ ) of such awards vesting each month. The shares of restricted stock initially vested monthly over thirty-six months, with  $1/36$  vesting on February 3, 2013, March 3, 2013 and April 3, 2013. The grant was then amended to vest annually over three years, with  $9/36$  vesting on January 3, 2014, and one-third vesting on January 3, 2015 and January 3, 2016. On or before December 31 of each calendar year, Mr. Milinazzo was eligible to receive an additional grant of equity awards equal, in the aggregate, to up to 0.5% of actual outstanding shares of our common stock on the date of grant, provided that the actual amount of the grant was based on his achievement of certain performance objectives as established by the board, in its reasonable discretion, for each such calendar year. Each additional grant was, with respect to any awards that were options, to have an exercise price equal to the fair market value of our common stock, and be subject to a three-year vesting period subject to Mr. Milinazzo's continued service with us, with one-third of each additional grant vesting equally on the first, second, and third anniversary of the date of grant for such awards. In connection with the equity compensation related to 2013 achievements, on January 29, 2014, Mr. Milinazzo was granted stock options to purchase 346 shares of common stock and 346 restricted shares. In connection with the equity compensation related to 2014 achievements, on January 26, 2015, Mr. Milinazzo was granted stock options to purchase 212 shares of common stock and 212 restricted shares.

Mr. Milinazzo's employment agreement, as amended, also contains certain noncompetition, non-solicitation, confidentiality, and assignment of inventions requirements for Mr. Milinazzo.

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



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

Pursuant to an option cancellation and release agreement, dated January 26, 2016, between us and Mr. Milinazzo, Mr. Milinazzo agreed to cancel options to purchase 6,422 shares of our common stock at exercise prices ranging from \$180 to \$1,012.5 previously granted to him. In exchange for the cancellation of Mr. Milinazzo's options, we granted to Mr. Milinazzo, pursuant to the 2013 Plan and the 2013 Employee Stock Incentive Plan, which is a sub-plan to the 2013 Plan, one share of our common stock as of January 26, 2016.

**2016 Grants of Plan-Based Awards**

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
James Barry, Ph.D. President and Chief Executive Officer	01/26/2016 <sup>(1)</sup>	1	—	—	14
	07/25/2016	—	70,500	4.75	235,783
	08/01/2016	70,500	—	—	334,871
Craig Shore Chief Financial Officer, Secretary and Treasurer	01/26/2016 <sup>(1)</sup>	1	—	—	14
	07/25/2016	—	17,625	4.75	60,711
	07/25/2016	17,625	—	—	83,718
Agustin V. Gago Executive Vice President and Chief Commercial Officer	10/24/2016	—	32,000	1.86	43,308
	10/24/2016	—	13,441	1.86	17,933
Alan Milinazzo <sup>(2)</sup> Former President and Chief Executive Officer	01/26/2016 <sup>(1)</sup>	1	—	—	14

On January 26, 2016, we entered into an option cancellation and release agreement with each of Dr. Barry and Messrs. Shore and Milinazzo, pursuant to which each party agreed to cancel options with exercise prices ranging from \$180 to \$1,950 previously granted to him and in exchange we granted each party one share of common stock pursuant to the 2013 Plan and the 2013 Employee Stock Incentive Plan, a sub-plan of the 2013 Plan.

<sup>(2)</sup> Mr. Milinazzo served as our president, chief executive officer and director until his resignation from such positions on June 6, 2016.

**Outstanding Equity Awards at December 31, 2016**

The following table shows information concerning unexercised options and unvested restricted shares outstanding as of December 31, 2016, for each of our named executive officers.

Option Awards		Stock Awards				
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable(12)	Option exercise price (\$)	Option expiration date	Number of shares of stock that have not vested (#)	Market value of shares of stock that have not vested (\$)
					(#)	(1)
James Barry, Ph.D.	—	70,500	(4) 4.75	07/25/2026	200 (1) 500 62 (2) 155 70,500(3) 176,250	
Craig Shore	—	17,625	(9) 4.75	07/25/2026	102 (5) 255 39 (6) 98 125 (7) 313 17,625(8) 44,063	
Agustin V. Gago	—	32,000	(10) 1.86	10/24/2026		
	—	13,441	(11) 1.86	10/24/2026		

- (1) These restricted shares will vest on July 14, 2017.
- (2) These restricted shares vest annually, with one-half vesting on each of January 26, 2017 and January 26, 2018.
- (3) These restricted shares will vest on August 1, 2017.
- (4) These options will vest on July 25, 2017.
- (5) These restricted shares vested on January 29, 2017.
- (6) These restricted shares vested on January 31, 2017.
- (7) These restricted shares vest annually, with one-half vesting on each of January 26, 2017 and January 26, 2018.
- (8) These restricted shares vest annually, with one-third vesting on each of July 25, 2017, July 25, 2018 and July 25, 2019.
- (9) These options vest annually, with one-third vesting on each of July 25, 2017, July 25, 2018 and July 25, 2019.
- (10) These options vest annually, with one-half vesting on each of October 24, 2017 and October 24, 2018.
- (11) These options will vest on October 24, 2017.

On January 26, 2016, we entered into an option cancellation and release agreement with each of Dr. Barry and (12) Mr. Shore, pursuant to which the parties agreed to cancel options with exercise prices ranging from \$180 to \$1,950.

### **Option Exercises and Stock Vested**

There were no stock options exercised by our named executive officers during the twelve months ended December 31, 2016.

### **2011 UMBRELLA Option Plan**

On March 28, 2011, our board of directors and stockholders adopted and approved the InspireMD, Inc. 2011 UMBRELLA Option Plan, which was subsequently amended on October 31, 2011 and December 21, 2012. Under the InspireMD, Inc. 2011 UMBRELLA Option Plan, we have reserved 20,000 shares of our common stock as awards to the employees, consultants, and service providers to InspireMD, Inc. and its subsidiaries and affiliates worldwide.

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

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

### **2013 Long-Term Incentive Plan**

On December 16, 2013, our stockholders approved the 2013 Plan, which was adopted by our board of directors on October 25, 2013.

The purpose of the 2013 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 2013 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards, which may be granted singly, in combination, or in tandem. The 2013 Plan is administered by our compensation committee.

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

When the 2013 Plan was adopted, a total of 20,000 shares of common stock were reserved for awards under the 2013 Plan.

On September 9, 2015, our stockholders approved an amendment to the 2013 Plan to increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by 18,800 shares of common stock, to a total of 38,800 shares of common stock.

On May 24, 2016, our stockholders approved the second amendment to the 2013 Plan to increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by 400,000 shares of common stock, to a total of 438,800 shares of common stock.

On September 28, 2016, our stockholders approved the third amendment to the 2013 Plan to increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by 252,000 shares of common stock, to a total of 690,800 shares of common stock.

**Equity Compensation Plan Information**

The following table provides certain information as of December 31, 2016, with respect to our equity compensation plans under which our equity securities are authorized for issuance:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by security holders	333,921	9.99	234,829
Equity compensation plans not approved by security holders	3,500	(1) 1,711.29	—
<b>Total</b>	<b>337,421</b>	<b>27.642</b>	<b>—</b>

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

Options issued to our former director: in November 2011, we issued options to purchase an aggregate of 2,900 shares of common stock to Dr. Barer, the chairman of our board of directors who resigned from our board of directors on June 2, 2017. The exercise price of these options is \$1,950 per share. An option to purchase 725 shares of common stock vested on April 11, 2013, when our common stock was first listed on a national securities exchange. An option to purchase 725 shares of common stock vested on May 10, 2013, after we received research coverage from a second investment bank that ranked in the top twenty investment banks in terms of life science underwritings. The option to purchase 1,450 shares of common stock vests in substantially equal monthly installments (with any fractional shares vesting on the last vesting date) on the last business day of each calendar month over a two year period from the date of grant, with the first installment vesting on November 30, 2011, provided that Dr. Barer is still providing services to us in some capacity as of each such vesting date.

Options issued to our former vice president of global marketing and strategy: in September 2013, we issued options to purchase 600 shares of common stock to David Blossom. The exercise price of these options was \$557.50 per share. The options vest annually with one-third vesting on September 16, 2014, September 16, 2015 and September 16, 2016. The options expire on December 16, 2018.

### **Change of Control Agreements**

We do not currently have any plans providing for the payment of retirement benefits to our officers or directors, other than as described under “Agreements with Executive Officers” above.

We do not currently have any change-of-control or severance agreements with any of our executive officers or directors, other than as described under “Agreements with Executive Officers” above. In the event of the termination of employment of the named executive officers, any and all unexercised stock options shall expire and no longer be exercisable after a specified time following the date of the termination, other than as described under “Agreements with Executive Officers” above.

### **Director Compensation**

The following table shows information concerning our directors, other than James Barry, Ph.D., during the twelve months ended December 31, 2016.



<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (1) (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Sol J. Barer, Ph.D.(2)	17,500	-	71,831	-	89,331
Isaac Blech(3)	12,500	-	267,303	-	279,803
Paul Stuka	19,500	-	57,738	-	77,238
James J. Loughlin(4)	27,333	-	-	-	27,333
Michael Berman	16,000	-	52,488	-	68,488
Campbell Rogers, M.D.	13,500	-	48,738	-	62,238
Thomas Kester	11,690	-	29,291	-	40,981

- The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to the twelve months ended December 31, 2016, in accordance with FASB ASC Topic 718. Fair value of option awards with service conditions is based on the Black-Scholes option pricing model using the fair value of the underlying shares at the measurement date. Fair value of option awards with performance and market conditions is based on the Monte-Carlo option pricing model. For additional discussion of the valuation assumptions used in determining stock-based compensation and the grant date fair value for stock options, see (1) “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Share-based compensation” and Note 2-”Significant Accounting Policies” and Note 10-”Equity” to the Consolidated Financial Statements for the Twelve Months Ended December 31, 2016 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 16, 2017.
- (2) Dr. Barer resigned from our board of directors as of June 2, 2017.
- (3) Following the expiration of his term as a director on June 29, 2017, Mr. Blech no longer serves on our board of directors.
- (4) Mr. Loughlin resigned from our board of directors as of May 24, 2016.

Name	Shares Subject to Options	Grant Date	Exercise Price	Vesting Schedule	Expiration	Fair Market Value on Grant Date
Sol J. Barer, Ph.D.	4,892	(1) June 30, 2016	\$ 8.25	Fully vested as of grant date	June 30, 2026	\$26,250
	20,000	(2) December 7, 2016	\$ 3.04	One-third annually in 2016, 2017 and 2018 on the anniversary of the date of grant, provided that Dr. Barer is providing services to us or our subsidiaries or affiliates on the applicable vesting date (5)	December 7, 2026	\$45,581
Isaac Blech	7,801	(4) May 3, 2016	\$ 12.50	Fully vested as of grant date	May 3, 2026	\$66,902
	23,401	(4) May 3, 2016	\$ 12.50	One-third vesting upon the occurrence of any of the events below: (i) The date the company raises \$15,000,000 or more in an offering of the issuer’s shares of common stock or other equity interests. (ii) The date the company’s market capitalization equals or exceeds \$25,000,000. (iii) The date the company receives research coverage from 3 analysts at investment banks that ranked in the top 20 investment banks in terms of underwritings as	May 3, 2026	\$161,496

Edgar Filing: InspireMD, Inc. - Form PRE 14A

of their most recently completed fiscal year and that did not cover the issuer prior to January 22, 2016. (iv) The date the company's market capitalization equals or exceeds 3 times the issuer's market capitalization as of January 22, 2016.

	1,941	(3)	June 30, 2016	\$ 8.25	Fully vested as of grant date	June 30, 2026	\$10,417
	12,500	(2)	December 7, 2016	\$ 3.04	One-third annually in 2017, 2018 and 2019 on the anniversary of the date of grant, provided that Mr. Blech is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	December 7, 2026	\$28,488
Paul Stuka	5,451	(1)	June 30, 2016	\$ 8.25	Fully vested as of grant date	June 30, 2026	\$29,250
	12,500	(2)	December 7, 2016	\$ 3.04	One-third annually in 2017, 2018 and 2019 on the anniversary of the date of grant, provided that Mr. Stuka is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	December 7, 2026	\$28,488
Michael Berman	4,472	(1)	June 30, 2016	\$ 8.25	Fully vested as of grant date	June 30, 2026	\$24,000
	12,500	(2)	December 7, 2016	\$ 3.04	One-third annually in 2017, 2018 and 2019 on the anniversary of the date of grant, provided that Mr. Berman is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	December 7, 2026	\$28,488
Campbell Rogers, M.D.	3,774	(1)	June 30, 2016	\$ 8.25	Fully vested as of grant date	June 30, 2026	\$20,250
	12,500	(2)	December 7, 2016	\$ 3.04	One-third annually in 2017, 2018 and 2019 on the anniversary of the date of grant, provided that Mr. Rogers is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	December 7, 2026	\$28,488
Thomas Kester	10,000	(4)	September 6, 2016	\$ 3.25	One-third annually in 2017, 2018 and 2019 on the anniversary of the date of grant, provided that Mr. Kester is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	September 6, 2026	\$23,594
	2,500	(2)		\$ 3.04			\$5,697

Edgar Filing: InspireMD, Inc. - Form PRE 14A

December 7, 2016	One-third annually in 2017, 2018 and 2019 on the anniversary of the date of grant, provided that Mr. Kester is providing services to us or our subsidiaries or affiliates on the applicable vesting date.	December 7, 2026
---------------------	---	---------------------

- (1) These options were granted in lieu of the cash compensation that was owed to them for their services as directors for the fourth calendar quarter of 2015 and the first and second quarters of 2016.
- (2) These options were granted as the director's 2016 annual director compensation.
- (3) These options were granted in lieu of the cash compensation for their services as directors for the first and second calendar quarters of 2016.
- (4) These options were granted upon the directors' appointment to our board of directors.

- Following Mr. Barer's resignation effective as of June 2, 2017, we amended the nonqualified stock option agreement we entered into with Dr. Barer on December 7, 2016, to accelerate the vesting of these options to
- (5) purchase 20,000 shares of common stock so that the option are fully vested as of June 2, 2017, and to permit Dr. Barer to exercise such option at any time prior to the tenth anniversary of the grant date.

For the 2016 calendar year, our board approved the following compensation for our independent directors: (i) a \$25,000 stipend, payable quarterly; (ii) annual committee chair compensation (effective April 1, 2014) of \$12,000 for the chairman of the audit committee, \$8,000 for the chairman of the compensation committee and \$5,000 for the chairmen of the nominating and corporate governance committee and the research and development committee; (iii) annual committee membership compensation (effective April 1, 2014) of \$4,000 for members of the audit committee and the compensation committee and \$2,000 for members of the nominating and corporate governance committee and the research and development committee; (iv) an option to purchase 12,500 shares of our common stock for each board member; and (v) an option to purchase an additional 7,500 shares of our common stock for the chairman of the board.

### **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.

### **Compensation Committee Interlocks and Insider Participation**

During the fiscal year ended December 31, 2016, Mr. Stuka and Dr. Barer served on our compensation committee. Our former director, Mr. Loughlin, served on our compensation committee until his resignation on May 24, 2016. On June 2, 2017, upon effectiveness of Dr. Barer's resignation from our board of directors, Mr. Kester was appointed to

replace Dr. Barer on the compensation committee. 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.

#### **PROPOSAL 1: APPROVAL OF THE INCENTIVE PLAN PROPOSAL**

Our board of directors is seeking the approval of our stockholders of an amendment to the 2013 Plan, which was adopted by our board of directors on August 15, 2017, subject to stockholder approval (the “Fourth Amendment”). The 2013 Plan was originally approved by our board of directors on October 25, 2013, and by our stockholders at our annual meeting held on December 16, 2013. Under the 2013 Plan as originally adopted, we reserved a total of 5,000,000 shares of our common stock for issuance pursuant to awards under the 2013 Plan. Our board of directors subsequently amended the 2013 Plan on July 16, 2015, which amendment was approved by our stockholders on September 9, 2015, to increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by 4,700,000 shares, to a total of 9,700,000 shares of our common stock. On October 1, 2015, we effected a 1-for-10 reverse stock split such that, after giving effect to the reverse stock split, there were 970,000 shares of our common stock reserved for issuance pursuant to awards under the 2013 Plan. On May 24, 2016, our stockholders approved the second amendment to the 2013 Plan to increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by 10,000,000 shares of common stock, to a total of 10,970,000 shares of common stock. On September 28, 2016, our stockholders approved the third amendment to the 2013 Plan to further increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by an additional 6,300,000 shares of common stock, to a total of 17,270,000 shares of common stock. On October 7, 2016, we effected a 1-for-25 reverse stock split of our common stock such that, after giving effect to the reverse stock split, there were 690,800 shares of our common stock reserved for issuance pursuant to awards under the 2013 Plan. When adjusted to give effect to the 1-for-10 reverse stock split and the 1-for-25 reverse stock split, as applicable, the first, second and third amendments to the 2013 Plan increased the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by 18,800 shares, 400,000 shares and 252,000 shares of our common stock, respectively. As of August 15, 2017, out of 690,800 shares of our common stock reserved for issuance pursuant to awards under the 2013 Plan, there were 285,490 shares remaining available for future issuance under the 2013 Plan. The proposed Fourth Amendment further increases the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan by an additional 40,000,000 shares, to a total of 40,690,800 shares of our common stock.

We believe that operation of the 2013 Plan is a necessary and powerful tool in attracting and retaining the services of key employees, key contractors, and outside directors in a competitive labor market, which is essential to our long-term growth and success. We also need to ensure that we can continue to provide an incentive to our current employees, contractors and outside directors, many of whom hold outstanding options that were previously awarded under the 2013 Plan with exercise prices above the current fair market value of our common stock. We have strived to use our 2013 Plan resources effectively and maintain an appropriate balance between stockholder interests and the ability to recruit and retain valuable employees. However, we believe that there is an insufficient number of shares remaining under our 2013 Plan to meet our current and projected needs. In addition, in March 2017, we closed another public offering of 1,069,822 shares of Series C Convertible Preferred Stock, Series B warrants to purchase up to 4,279,288 shares of common stock and Series C warrants to purchase up to 4,279,288 shares of common stock, which were initially convertible and exercisable into an additional 12,837,864 shares of common stock in the aggregate. Moreover, the respective certificate of designation for our Series B Convertible Preferred Stock we sold in a public offering in July 2016 and our Series C Convertible Preferred Stock contains anti-dilution provisions, which provisions require the lowering of the applicable conversion price, as then in effect, to the purchase price of equity or equity-linked securities issued in subsequent offerings, which will result in a greater number of shares of common stock being issuable upon conversion of the Series B Convertible Preferred Stock or the Series C Convertible Preferred Stock. In connection with the March 2017 offering, pursuant to the full-ratchet anti-dilution price protection in the certificate of designation for the Series B Convertible Preferred Stock, the conversion price of the Series B Convertible Preferred Stock was adjusted to \$1.60 per share of common stock, and each share of Series B Convertible Preferred Stock became convertible into 20.625 shares of common stock. As a result of these financings and the resulting potential share issuances, the number of shares issuable pursuant to the 2013 Plan relative to our fully diluted capitalization is now disproportionately low, relative to our peer companies. In the event that we raise additional capital through the sale of equity securities, such percentage of our fully diluted capitalization reserved for employees and directors will decrease even further. Having such a small percentage of our fully diluted capitalization reserved for employees and directors will impair our ability to both attract and retain key persons going forward. Accordingly, it is the judgment of our board of directors that increasing the number of shares of common stock available for issuance under the 2013 Plan pursuant to the Fourth Amendment is in the best interest of the Company and its stockholders. In addition, we believe that the Fourth Amendment to increase the number of shares of common stock available for issuance pursuant to awards under the 2013 Plan reflects best practices in our industry.

A copy of the Fourth Amendment and the 2013 Plan are included as Annex A and Annex B, respectively, to this Proxy Statement. Described below is a summary of certain key provisions of the 2013 Plan, which is qualified in its entirety by reference to the full text of the 2013 Plan.

In addition to requesting stockholder approval of the Fourth Amendment, we are also requesting that our stockholders reapprove the material terms of the performance goals contained in the 2013 Plan in order to allow certain awards to be potentially eligible for exemption from the \$1,000,000 deduction limit imposed by Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), as discussed under “Description of the 2013 Plan—Performance Awards” and “—Performance Goals” below. For purposes of Section 162(m) of the Code, the material terms of the performance goals for awards granted under the 2013 Plan include: (i) the employees eligible to receive compensation; (ii) the description of the business measures on which the performance goals may be based; and (iii) the maximum amount, or the formula used to calculate the maximum amount, of compensation that can be paid to an employee under the arrangement. Each of these aspects is discussed in this Incentive Plan Proposal (Proposal 1), and stockholder approval

of this Incentive Plan Proposal (Proposal 1) constitutes reapproval of each of these aspects for purposes of the Section 162(m) stockholder approval requirements.



The board of directors recommends that the stockholders vote “FOR” the approval of the Incentive Plan Proposal (Proposal 1).

### **Summary of the Proposed Fourth Amendment**

Our board of directors adopted the Fourth Amendment on August 15, 2017, subject to stockholder approval, to increase the number of shares of our common stock available for issuance pursuant to awards under the 2013 Plan by an additional 40,000,000 shares, to a total of 40,690,800 shares of common stock.

### **Description of the 2013 Plan**

*Purpose.* The purpose of the 2013 Plan is to enable the Company and its subsidiaries and affiliates (together, the “Group”) to remain competitive and innovative in our ability to attract, motivate, reward, and retain the services of key employees, key contractors, and outside directors. The 2013 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem and which may be paid in cash, shares of common stock, or a combination of cash and shares of common stock. The 2013 Plan is expected to provide flexibility to our compensation methods in order to adapt the compensation of employees, contractors, and outside directors to a changing business environment, after giving due consideration to competitive conditions and the impact of U.S. and Israeli tax laws.

The 2013 Plan consists of two components, the primary plan document which governs all awards granted under the 2013 Plan, and one sub-part appendix: Appendix A, which is the 2013 Employee Stock Incentive Plan (the “Israeli Appendix”), designated for grants of stock options, restricted stock, and other stock incentive awards to Israeli employees, consultants, officers, directors, and other service providers and to other non-U.S. employees, consultants, and service providers subject to Israeli income tax.

*Effective Date and Expiration.* The 2013 Plan became effective on October 25, 2013, subject to and conditioned upon stockholder approval of the 2013 Plan, and will terminate on October 25, 2023. No award may be made under the 2013 Plan after its expiration date, but awards made prior thereto may extend beyond that date in accordance with their terms and conditions.

*Share Authorization.* Subject to certain adjustments, the maximum number of shares of our common stock that may be delivered pursuant to awards under the 2013 Plan is currently 690,800 shares, 100% of which may be delivered pursuant to incentive stock options. If the Fourth Amendment is approved, the total number of shares that may be issued pursuant to awards under the 2013 Plan will be increased to 40,690,800 shares. Subject to certain adjustments, the maximum number of the shares of common stock with respect to which stock options or stock appreciation rights may be granted to any executive officer of the Company or a subsidiary subject to Section 16 of the Securities Exchange Act of 1934, as amended, or a “covered employee” as defined in Section 162(m)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) during any calendar year is 100,000 shares. In addition, to the extent Section 162(m) of the Code applies to awards granted under the 2013 Plan and we intend to comply with Section 162(m) of the Code, no participant may receive in any calendar year performance-based awards with an aggregate value of more than \$5,000,000 (based on the fair market value of shares of the common stock at the time of the grant of the performance-based award). The 2013 Plan also provides that no more than 10% of the shares of common stock that may be issued pursuant to an award under the 2013 Plan may be designated as Exempt Shares (as defined in the 2013 Plan). The compensation committee has greater flexibility to accelerate the vesting for shares designated as Exempt Shares.

Shares to be issued may be made available from authorized but unissued shares of our common stock, shares held by the Company in its treasury, or shares purchased by the Company on the open market or otherwise. During the term of the 2013 Plan, we will at all times reserve and keep enough shares available to satisfy the requirements of the 2013 Plan. If an award under the 2013 Plan is cancelled, forfeited, or expires, in whole or in part, the shares subject to such forfeited, expired, or cancelled award may again be awarded under the 2013 Plan. In the event that previously acquired shares are delivered to us in full or partial payment of the option price for the exercise of a stock option granted under the 2013 Plan, the number of shares available for future awards under the 2013 Plan shall be reduced only by the net number of shares issued upon the exercise of the stock option or settlement of an award. Awards that may be satisfied either by the issuance of common stock or by cash or other consideration shall be counted against the maximum number of shares that may be issued under the 2013 Plan only during the period that the award is outstanding or to the extent the award is ultimately satisfied by the issuance of shares. An award will not reduce the number of shares that may be issued pursuant to the 2013 Plan if the settlement of the award will not require the issuance of shares, as, for example, a stock appreciation right that can be satisfied only by the payment of cash. Only shares forfeited back to the Company; shares cancelled on account of termination, expiration, or lapse of an award; shares surrendered in payment of the option price of an option; or shares withheld for payment of applicable employment taxes and/or withholding obligations resulting from the exercise of a stock option shall again be available for grants of incentive stock options under the 2013 Plan, but shall not increase the maximum number of shares described above as the maximum number of shares that may be delivered pursuant to incentive stock options.

*Administration.* The 2013 Plan may be administered by our board of directors or a committee of the board of directors consisting of two or more members. The 2013 Plan is currently administered by the compensation committee of our board of directors. The compensation committee will determine the persons to whom awards are to be made; determine the type, size, and terms of awards; interpret the 2013 Plan; establish and revise rules and regulations relating to the 2013 Plan; and make any other determinations that it believes are necessary for the administration of the 2013 Plan. To assure the viability of awards granted to participants employed in foreign countries, the compensation committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the compensation committee may approve such supplements to, or amendments, restatements, or alternative versions of, the 2013 Plan as the compensation committee determines is necessary or appropriate for such purposes. Any such amendment, restatement, or alternative versions that the compensation committee approves for purposes of using the 2013 Plan in a foreign country will not affect the terms of the 2013 Plan for any other country. The compensation committee may delegate certain duties to one or more officers of the Company as provided in the 2013 Plan.

*Eligibility.* Employees (including any employee who is also a director or an officer), contractors, and outside directors of the Group whose judgment, initiative and efforts contributed to or may be expected to contribute to the successful performance of the Group are eligible to participate in the 2013 Plan. As of August 15, 2017, there were approximately 39 employees, directors, and contractors who would be eligible for awards under the 2013 Plan.

*Stock Options.* For persons subject to U.S. income tax, the compensation committee may grant either incentive stock options (“ISOs”) qualifying under Section 422 of the Code or nonqualified stock options, provided that only employees of the Company and its subsidiaries (excluding subsidiaries that are not corporations) are eligible to receive ISOs. Stock options may not be granted with an option price less than 100% of the fair market value of a share of common stock on the date the stock option is granted. If an ISO is granted to an employee who owns or is deemed to own more than 10% of the combined voting power of all classes of stock of the Company (or any parent or subsidiary), the option price shall be at least 110% of the fair market value of a share of common stock on the date of grant. The compensation committee will determine the terms of each stock option at the time of grant, including, without limitation, the methods by or forms in which shares will be delivered to participants. The maximum term of each option, the times at which each option will be exercisable, and provisions requiring forfeiture of unexercised options at or following termination of employment or service generally are fixed by the compensation committee, except that the compensation committee may not grant stock options with a term exceeding ten years, or in the case of an ISO granted to an employee who owns or is deemed to own 10% or more of the combined voting power of all classes of our stock (or any parent or subsidiary), a term exceeding five years.

Recipients of stock options may pay the option price (i) in cash, check, bank draft, or money order payable to the order of the Company; (ii) by delivering to us shares of common stock (including restricted stock) already owned by the participant having a fair market value equal to the aggregate option price and that the participant has not acquired from us within six months prior to the exercise date; (iii) by delivering to us or our designated agent an executed irrevocable option exercise form together with irrevocable instructions from the participant to a broker or dealer, reasonably acceptable to us, to sell certain of the shares purchased upon the exercise of the option or to pledge such shares to the broker as collateral for a loan from the broker and to deliver to us the amount of sale or loan proceeds necessary to pay the purchase price; or (iv) by any other form of valid consideration that is acceptable to the compensation committee in its sole discretion.

*Stock Appreciation Rights.* The compensation committee is authorized to grant stock appreciation rights (“SARs”) as a stand-alone award, or freestanding SARs, or in conjunction with options granted under the 2013 Plan, or tandem SARs. SARs entitle a participant to receive an amount, in cash, shares, or a combination of both, equal to the excess of the fair market value of a share of common stock on the date of exercise over the fair market value of a share of common stock on the date of grant. The grant price of a SAR cannot be less than 100% of the fair market value of a share of common stock on the date of grant. The compensation committee will determine the terms of each SAR at the time of the grant, including, without limitation, the methods by or forms in which shares will be delivered to participants. The maximum term of each SAR, the times at which each SAR will be exercisable, and provisions requiring forfeiture of unexercised SARs at or following termination of employment or service generally are fixed by the compensation committee, except that no freestanding SAR may have a term exceeding ten years and no tandem SAR may have a term exceeding the term of the option granted in conjunction with the tandem SAR. The compensation committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a SAR, but any such limitation shall be specified at the time that the SAR is granted.

*Restricted Stock and Restricted Stock Units.* The compensation committee is authorized to grant restricted stock and restricted stock units. Restricted stock consists of shares of common stock that may not be sold, transferred, pledged, assigned, hypothecated, encumbered, or otherwise disposed of, and that may be forfeited in the event of certain terminations of employment or service, prior to the end of a restricted period as specified by the compensation committee. Restricted stock units are the right to receive shares of common stock at a future date in accordance with the terms of such grant upon the attainment of certain conditions specified by the compensation committee, which include a substantial risk of forfeiture and restrictions on their sale or other transfer by the participant. The compensation committee determines the eligible participants to whom, and the time or times at which, grants of restricted stock or restricted stock units will be made, the number of shares or units to be granted, the price to be paid, if any, the time or times within which the shares covered by such grants will be subject to forfeiture, the time or times at which the restrictions will terminate, and all other terms and conditions of the grants. Restrictions or conditions could include, but are not limited to, the attainment of performance goals (as described below), continuous service with us, the passage of time, or other restrictions and conditions.

*Dividend Equivalent Rights.* The compensation committee is authorized to grant a dividend equivalent right to any participant either as a component of another award or as a separate award, conferring on the participant the right to receive credits based on the cash dividends that would have been paid on the shares of common stock specified in the grant if such shares were held by the participant to whom the grant is made. The terms and conditions of the dividend equivalent right shall be specified by the grant. Dividend equivalents credited to the holder of a dividend equivalent right may be paid currently or may be deemed to be reinvested in additional shares of common stock. Any such reinvestment shall be at the fair market value at the time thereof. A dividend equivalent right may be settled in cash, shares, or a combination thereof.

*Performance Awards.* The compensation committee may grant performance awards of cash, shares of common stock, units, or rights based upon, payable in, or otherwise related to shares of our common stock. Payment will be contingent upon achieving pre-established performance goals (as described below) by the end of the performance period. The compensation committee will determine the length of the performance period, the maximum payment

value of an award, and the minimum performance goals required before payment will be made, so long as such provisions are not inconsistent with the terms of the 2013 Plan, and to the extent an award is subject to Section 409A of the Code, are in compliance with the applicable requirements of Section 409A of the Code and any applicable regulations or guidance. To the extent we determine that Section 162(m) of the Code shall apply to a performance award granted under the 2013 Plan, it is our intent that such performance awards constitute “performance-based compensation” within the meaning of Section 162(m) of the Code and the regulations thereunder. In certain circumstances, the compensation committee may, in its discretion, determine that the amount payable with respect to certain performance awards will be reduced from the amount of any potential awards. However, the compensation committee may not, in any event, increase the amount of compensation payable to an individual upon the attainment of a performance goal intended to satisfy the requirements of Section 162(m) of the Code. With respect to a performance award that is not intended to satisfy the requirements of Section 162(m), if the compensation committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in our business, operations, corporate structure, or for other reasons that the compensation committee deemed satisfactory, the compensation committee may modify the performance measures or objectives and/or the performance period.

*Performance Goals.* Awards of restricted stock, restricted stock units, performance awards, and other awards (whether relating to cash or shares of common stock) under the 2013 Plan may be made subject to the attainment of performance goals relating to one or more business criteria which, where applicable, shall be within the meaning of Section 162(m) of the Code and consist of one or more or any combination of the following criteria (“Performance Criteria”): cash flow; cost; revenues; sales; ratio of debt to debt plus equity; net borrowing, credit quality or debt ratings; profit before tax; economic profit; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; gross margin; earnings per share (whether on a pre-tax, after-tax, operational or other basis); operating earnings; capital expenditures; expenses or expense levels; economic value added; ratio of operating earnings to capital spending or any other operating ratios; free cash flow; net profit; net sales; net asset value per share; the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions; sales growth; price of our common stock; return on assets, equity or stockholders’ equity; market share; inventory levels, inventory turn or shrinkage; or total return to stockholders. Any Performance Criteria may be used to measure our performance as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (i) extraordinary, unusual, and/or non-recurring items of gain or loss; (ii) gains or losses on the disposition of a business; (iii) changes in tax or accounting regulations or laws; (iv) the effect of a merger or acquisition, as identified in our quarterly and annual earnings releases; or (v) other similar occurrences. In all other respects, Performance Criteria shall be calculated in accordance with our financial statements, under generally accepted accounting principles, or under a methodology established by the compensation committee prior to the issuance of an award. However, to the extent Section 162(m) of the Code is applicable, the compensation committee may not in any event increase the amount of compensation payable to an individual upon the attainment of a Performance Goal.

*Other Awards.* The compensation committee may grant other forms of awards, based upon, payable in, or otherwise related to, in whole or in part, shares of our common stock, if the compensation committee determines that such other form of award is consistent with the purpose and restrictions of the 2013 Plan. The terms and conditions of such other form of award shall be specified by the grant. Such other awards may be granted for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant.

*Israeli Awards.* For persons subject to the Israeli Income Tax Ordinance (the “Ordinance”), the compensation committee is authorized to grant stock options pursuant to the terms of the Israeli Appendix. The compensation committee may grant (i) options under Section 102 of the Ordinance (“Section 102 Options”) to employees, officers, and directors (excluding Controlling Members, as defined below) and (ii) options under Section 3(i) of the Ordinance (“Section 3(i) Options”) to controlling members as defined in the Ordinance (holding more than 10% of the Company’s outstanding voting shares of common stock) (the “Controlling Members”), consultants and other service providers with no employer/employee relationship with the Group and who are not office holders. The compensation committee may designate Section 102 Options as “Approved 102 Options,” for which the options and shares upon exercise must be held in trust and granted through a trustee, and as “Unapproved 102 Options,” for which the options and shares upon exercise do not have to be held in trust. As described further below, the determination of the compensation committee as to the taxation route of the incentive, the type of option, and the duration of time the option and shares upon exercise are held in trust will determine the tax consequences to the participant. Of the Approved 102 Options, the compensation committee may grant options as “Work Income Options,” for which the options and shares upon exercise must be held in trust for 12 months from the date of grant, or as “Capital Gain Options,” for which the options and shares upon

exercise must be held in trust for 24 months from the date of grant. If the requirements of the Approved 102 Options are not met, the options are regarded as Unapproved 102 Options. Section 3(i) Options and the shares upon exercise may be held in trust as well, depending upon the agreement between the compensation committee, optionee, and the trustee of the trust.

Israeli participants can be granted other type of options under the 2013 Plan, but some of them will require a pre-ruling from the Israeli Tax Authorities in order to be deemed Approved 102 Options. In addition, the compensation committee is authorized to grant restricted stock and other stock incentives subject to restrictions as specified by the compensation committee. The compensation committee may grant such incentives under (i) Section 102 of the Ordinance (“Section 102 Incentives”) to employees, officers, and directors (excluding Controlling Members) and (ii) under Section 3(i) of the Ordinance (“Section 3(i) Incentives”) to Controlling Members, consultants and other service providers with no employer/employee relationship with the Group and who are not office holders.



*Vesting, Forfeiture, Assignment.* The compensation committee, in its sole discretion, may determine that an award will be immediately vested in whole or in part, or that all or any portion may not be vested until a date, or dates, subsequent to its date of grant, or until the occurrence of one or more specified events, subject in any case to the terms of the 2013 Plan. If the compensation committee imposes conditions upon vesting, then, except as otherwise provided below, subsequent to the date of grant, the compensation committee may, in its sole discretion, accelerate the date on which all or any portion of the award may be vested. "Full Value Awards" (*i.e.*, restricted stock or restricted stock units) that constitute performance awards must vest no earlier than one year after the date of grant, and Full Value Awards that are payable upon the completion of future services must vest no earlier than over the three year period commencing on the date of grant. Notwithstanding the foregoing, the compensation committee may, in its sole discretion, accelerate the vesting or waive any applicable restriction period for such Full Value Awards, provided that the shares of common stock subject to such awards shall be Exempt Shares, unless such acceleration or waiver occurs by reason of the participant's death, disability, retirement, or occurrence of a change in control. The number of Exempt Shares is limited to 10% of the number of shares available for issuance under the 2013 Plan. For stock options granted pursuant to the Israeli Appendix, unless otherwise provided in an award agreement, the options are subject to the following default vesting provisions: 1/4 of the optioned shares shall vest annually over a four-year period, beginning with the first anniversary of the date of grant.

The compensation committee may impose on any award at the time of grant or thereafter, such additional terms and conditions as the compensation committee determines, including, without limitation, terms requiring forfeiture of awards in the event of a participant's termination of service. The compensation committee will specify the circumstances on which performance awards may be forfeited in the event of a termination of service by a participant prior to the end of a performance period or settlement of awards. Except as otherwise determined by the compensation committee, restricted stock will be forfeited upon a participant's termination of service during the applicable restriction period. For stock options granted pursuant to the Israeli Appendix, unless otherwise provided in an award agreement, the options are subject to the following forfeiture provisions: (i) upon any termination of service, all unvested optioned shares are forfeited; (ii) upon a voluntary termination of service by a participant, vested optioned shares terminate 30 days following the date of the termination of service; (iii) upon an involuntary termination of service by us other than for "cause" (as defined in the Israeli Appendix), vested optioned shares terminate 60 days following the date of the termination of service; (iv) upon a termination of service due to disability or the Participant's retirement with our consent, vested optioned shares terminate one year following the date of such termination of service; (v) upon a termination of service due to death, vested optioned shares terminate two years from the date of death; and (vi) upon an involuntary termination of service by us for "cause" (as defined in the Israeli Appendix), all optioned shares, including vested optioned shares, terminate immediately.

Awards granted under the 2013 Plan generally are not assignable or transferable except by will or by the laws of descent and distribution, except that the compensation committee may, in its discretion and pursuant to the terms of an award agreement, permit transfers of nonqualified stock options or SARs to (i) the spouse (or former spouse), children or grandchildren of the participant ("Immediate Family Members"); (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members; (iii) a partnership in which the only partners are (1) such Immediate Family Members and/or (2) entities which are controlled by Immediate Family Members; (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision; or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the applicable award agreement pursuant to which such award is granted must

be approved by the compensation committee and must expressly provide for such transferability and (z) subsequent transfers of transferred awards shall be prohibited except those by will or the laws of descent and distribution.

*Adjustments Upon Changes in Capitalization.* In the event that any dividend or other distribution (whether in the form of cash, common stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of shares of common stock or other securities of the Company, issuance of warrants or other rights to purchase shares of common stock or other securities of the Company, or other similar corporate transaction or event affects the fair value of an award, then the compensation committee shall adjust any or all of the following so that the fair value of the award immediately after the transaction or event is equal to the fair value of the award immediately prior to the transaction or event (i) the number of shares and type of common stock (or the securities or property) which thereafter may be made the subject of awards; (ii) the number of shares and type of common stock (or other securities or property) subject to outstanding awards; (iii) the number of shares and type of common stock (or other securities or property) specified as the annual per-participant limitation under the 2013 Plan; (iv) the exercise price of each outstanding award; (v) the amount, if any, we pay for forfeited shares in accordance with the terms of the 2013 Plan; and (vi) the number of or exercise price of shares then subject to outstanding SARs previously granted and unexercised under the 2013 Plan to the end that the same proportion of our issued and outstanding shares common stock in each instance shall remain subject to exercise at the same aggregate exercise price; provided however, that the number of shares of common stock (or other securities or property) subject to any award shall always be a whole number. Notwithstanding the foregoing, no such adjustment shall be made or authorized to the extent that such adjustment would cause the 2013 Plan or any stock option to violate Section 422 of the Code or Section 409A of the Code. All such adjustments must be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which we are subject.

*Amendment or Discontinuance of the 2013 Plan.* The board of directors may at any time and from time to time, without the consent of the participants, alter, amend, revise, suspend, or discontinue the 2013 Plan in whole or in part, except that no amendment for which stockholder approval is required either: (i) by any securities exchange or inter-dealer quotation system on which our common stock is listed or traded, or (ii) in order for the 2013 Plan and incentives awarded under the 2013 Plan to continue to comply with Sections 162(m), 421, and 422 of the Code, including any successors to such Sections, or other applicable law, shall be effective unless such amendment is approved by the requisite vote of our stockholders entitled to vote thereon. Any amendments made shall, to the extent deemed necessary or advisable by the compensation committee, be applicable to any outstanding awards theretofore granted under the 2013 Plan, notwithstanding any contrary provisions contained in any award agreement. In the event of any such amendment to the 2013 Plan, the holder of any award outstanding under the 2013 Plan shall, upon request of the compensation committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the compensation committee to any award agreement relating thereto. Notwithstanding anything contained in the 2013 Plan to the contrary, unless required by law, no action regarding amendment or discontinuance shall adversely affect any rights of participants or obligations of the Company to participants with respect to any awards granted under the 2013 Plan without the consent of the affected participant.

## **U.S. Federal Income Tax Consequences**

The following is a brief summary of certain U.S. federal income tax consequences relating to the transactions described under the 2013 Plan as set forth below. This summary does not purport to address all aspects of U.S. federal

income taxation and does not describe state, local, or foreign tax consequences. This discussion is based upon provisions of the Code and the Treasury Regulations issued thereunder, and judicial and administrative interpretations under the Code and the Treasury Regulations, all as in effect as of the date hereof, and all of which are subject to change (possibly on a retroactive basis) or different interpretation.

*Law Affecting Deferred Compensation.* In 2004, Section 409A was added to the Code 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 performance awards, stock options, SARs, restricted stock units, and certain types of restricted stock are subject to Section 409A of the Code.

*Incentive Stock Options.* A participant will not recognize income at the time an ISO is granted. When a participant exercises an ISO, a participant also generally will not be required to recognize income (either as ordinary income or capital gain). However, to the extent that the fair market value (determined as of the date of grant) of the shares with respect to which the participant's ISOs are exercisable for the first time during any year exceeds \$100,000, the ISOs for the shares over \$100,000 will be treated as nonqualified stock options, and not ISOs, for federal tax purposes, and the participant will recognize income as if the ISOs were nonqualified stock options. In addition to the foregoing, if the fair market value of the shares received upon exercise of an ISO exceeds the exercise price, then the excess may be deemed a tax preference adjustment for purposes of the federal alternative minimum tax calculation. The federal alternative minimum tax may produce significant tax repercussions depending upon the participant's particular tax status.

The tax treatment of any shares acquired by exercise of an ISO will depend upon whether the participant disposes of his or her shares prior to two years after the date the ISO was granted or one year after the shares were transferred to the participant (referred to as, the “Holding Period”). If a participant disposes of shares acquired by exercise of an ISO after the expiration of the Holding Period, any amount received in excess of the participant’s tax basis for such shares will be treated as short-term or long-term capital gain, depending upon how long the participant has held the shares. If the amount received is less than the participant’s tax basis for such shares, the loss will be treated as short-term or long-term capital loss, depending upon how long the participant has held the shares.

If the participant disposes of shares acquired by exercise of an ISO prior to the expiration of the Holding Period, the disposition will be considered a “disqualifying disposition.” If the amount received for the shares is greater than the fair market value of the shares on the exercise date, then the difference between the ISO’s exercise price and the fair market value of the shares at the time of exercise will be treated as ordinary income for the tax year in which the “disqualifying disposition” occurs. The participant’s basis in the shares will be increased by an amount equal to the amount treated as ordinary income due to such “disqualifying disposition.” In addition, the amount received in such “disqualifying disposition” over the participant’s increased basis in the shares will be treated as capital gain. However, if the price received for shares acquired by exercise of an ISO is less than the fair market value of the shares on the exercise date and the disposition is a transaction in which the participant sustains a loss which otherwise would be recognizable under the Code, then the amount of ordinary income that the participant will recognize is the excess, if any, of the amount realized on the “disqualifying disposition” over the basis of the shares.

*Nonqualified Stock Options.* A participant generally will not recognize income at the time a nonqualified stock option is granted. When a participant exercises a nonqualified stock option, the difference between the option price and any higher market value of the shares of common stock on the date of exercise will be treated as compensation taxable as ordinary income to the participant. The participant’s tax basis for the shares acquired under a nonqualified stock option will be equal to the option price paid for such shares, plus any amounts included in the participant’s income as compensation. When a participant disposes of shares acquired by exercise of a nonqualified stock option, any amount received in excess of the participant’s tax basis for such shares will be treated as short-term or long-term capital gain, depending upon how long the participant has held the shares. If the amount received is less than the participant’s tax basis for such shares, the loss will be treated as short-term or long-term capital loss, depending upon how long the participant has held the shares.

*Special Rule if Option Price is Paid for in Shares.* If a participant pays the option price of a nonqualified stock option with previously-owned shares of our common stock and the transaction is not a disqualifying disposition of shares previously acquired under an ISO, the shares received equal to the number of shares surrendered are treated as having been received in a tax-free exchange. The participant’s tax basis and holding period for these shares received will be equal to the participant’s tax basis and holding period for the shares surrendered. The shares received in excess of the number of shares surrendered will be treated as compensation taxable as ordinary income to the participant to the extent of such shares’ fair market value. The participant’s tax basis in such shares will be equal to their fair market value on the date of exercise, and the participant’s holding period for such shares will begin on the date of exercise.

If the use of previously acquired shares to pay the exercise price of a nonqualified stock option constitutes a disqualifying disposition of shares previously acquired under an ISO, the participant will have ordinary income as a result of the disqualifying disposition in an amount equal to the excess of the fair market value of the shares surrendered, determined at the time such shares were originally acquired on exercise of the ISO, over the aggregate option price paid for such shares. As discussed above, a disqualifying disposition of shares previously acquired under an ISO occurs when the participant disposes of such shares before the end of the Holding Period. The other tax results from paying the exercise price with previously-owned shares are as described above, except that the participant's tax basis in the shares that are treated as having been received in a tax-free exchange will be increased by the amount of ordinary income recognized by the participant as a result of the disqualifying disposition.

*Restricted Stock.* A participant who receives a grant of restricted stock generally will recognize as ordinary income the excess, if any, of the fair market value of the shares granted as restricted stock at such time as the shares are no longer subject to forfeiture or restrictions, over the amount paid, if any, by the participant for such shares. However, a participant who receives restricted stock may make an election under Section 83(b) of the Code within 30 days of the date of transfer of the shares to recognize ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the restrictions on such shares) over the purchase price, if any, of such shares. If a participant does not make an election under Section 83(b) of the Code, then the participant will recognize as ordinary income any dividends received with respect to such shares. At the time of the sale of such shares, any gain or loss realized by the participant will be treated as either short-term or long-term capital gain (or loss) depending on the holding period. For purposes of determining any gain or loss realized, the participant's tax basis will be the amount previously taxable as ordinary income, plus the purchase price paid by the participant, if any, for such shares.

*Stock Appreciation Rights.* Generally, a participant who receives a stand-alone SAR will not recognize taxable income at the time the stand-alone SAR is granted, provided that the SAR is exempt from or complies with Section 409A of the Code. If an employee receives the appreciation inherent in the SARs in cash, the cash will be taxed as ordinary income to the recipient at the time it is received. If a recipient receives the appreciation inherent in the SARs in stock, the spread between the then current market value and the grant price, if any, will be taxed as ordinary income to the employee at the time it is received. In general, there will be no U.S. federal income tax deduction allowed to us upon the grant or termination of SARs. However, upon the exercise of a SAR, we will be entitled to a deduction equal to the amount of ordinary income the recipient is required to recognize as a result of the exercise.

*Other Awards.* In the case of an award of restricted stock units, performance awards, dividend equivalent rights, or other stock or cash awards, the recipient will generally recognize ordinary income in an amount equal to any cash received and the fair market value of any shares received on the date of payment or delivery, provided that the award is exempt from or complies with Section 409A of the Code. In that taxable year, we will receive a U.S. federal income tax deduction in an amount equal to the ordinary income which the participant has recognized.

*U.S. Federal Tax Withholding.* Any ordinary income realized by a participant upon the exercise of an award under the 2013 Plan is subject to withholding of U.S. federal, state, and local income tax and to withholding of the participant's share of tax under the Federal Insurance Contribution Act and the Federal Unemployment Tax Act. To satisfy federal income tax withholding requirements, we will have the right to require that, as a condition to delivery of any certificate for shares of common stock or the registration of the shares in the participant's name, the participant remit to us an amount sufficient to satisfy the withholding requirements. Such payment may be made by (i) the delivery of cash to us in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (ii) if we, in our sole discretion, so consent in writing, the actual delivery by the participant to us of shares of common stock that the participant has not acquired from us within six months prior to the date of exercise, which shares so delivered have an aggregate fair market value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (iii) if we, in our sole discretion, so consent in writing, our withholding of a number of shares to be delivered upon the exercise of a stock option, which shares so withheld have an aggregate fair market value that equals (but does not exceed) the required tax withholding

payment; or (iv) any combination of (i), (ii), or (iii). We also may, in our sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by us to the participant.

Withholding does not represent an increase in the participant's total income tax obligation, since it is fully credited toward his or her tax liability for the year. Additionally, withholding does not affect the participant's tax basis in the shares. Compensation income realized and tax withheld will be reflected on Forms W-2 supplied by us to employees by January 31 of the succeeding year. Deferred compensation that is subject to Section 409A of the Code will be subject to certain federal income tax withholding and reporting requirements.

*Tax Consequences to the Company.* To the extent that a participant recognizes ordinary income in the circumstances described above, we will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Code, and is not disallowed by the \$1,000,000 limitation on certain executive compensation under Section 162(m) of the Code.



*Million Dollar Deduction Limit and Other Tax Matters.* We may not deduct compensation of more than \$1,000,000 that is paid to an individual who, on the last day of the taxable year, is either our principal executive officer or an individual who is among the three highest compensated officers for the taxable year (other than our principal executive officer or the principal financial officer). The 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). To the extent that we determine that Section 162(m) of the Code will apply to any awards granted pursuant to the 2013 Plan, we intend that such awards will be constructed so as to constitute qualified performance-based compensation and, as such, will be exempt from the \$1,000,000 limitation on deductible compensation.

If an individual's rights under the 2013 Plan are accelerated as a result of a change in control and the individual is a "disqualified individual" under Section 280G of the Code, the value of any such accelerated rights received by such individual may be included in determining whether or not such individual has received an "excess parachute payment" under Section 280G of the Code, which could result in (i) the imposition of a 20% federal excise tax (in addition to federal income tax) payable by the individual on the value of such accelerated rights; and (ii) the loss by us of a compensation deduction.

### **Israeli Income Tax Consequences**

The following description of the Israel income tax consequences of awards under the Israeli Appendix of the 2013 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, shares and other securities (including restricted shares) (together "Options") may be granted through a trustee (*i.e.*, Approved 102 Options) or not through a trustee (*i.e.*, Unapproved 102 Options). The following is a brief discussion of the tax consequences applicable to both types of Section 102 Options.

*Grant Through a Trustee.* Options granted through a trustee and held in trust are made either through the capital gains tax track (*i.e.*, Capital Gains Options) or the compensation income tax track (*i.e.*, Work Income Options). Capital Gains Options and Work Income Options can be granted only through a trustee. Under the capital gains tax track, the Capital Gains Options and the underlying shares have to be held in trust for at least 24 months from their date of grant. Any gain made on the sale of shares following the 24 month period is subject to a capital gains tax at a current rate of 25%; the amount of gain is the difference between the sales proceeds from the sale of shares and the exercise price paid for such shares. Generally, Capital Gains Options are not taxed on their date of grant. However, in the event that the exercise price of the options is less than the fair market value of our common stock on the date of grant, a portion of the gain will be deemed compensation income, taxable at the personal marginal tax rate of the participant. The payment of such tax is made at the time of exercise of the Capital Gains Options. The portion of the gain that is

deemed compensation income is the difference between the average value of the shares as listed on the stock exchange during the 30-day period prior to the date of grant and the exercise price of the option. If the Capital Gains Options or the underlying shares of such options are sold by the trustee or transferred from the trustee to the beneficiary before the end of the 24 month period, any resulting income (cash or equivalent) is taxed as compensation income. If the options have not been exercised and transferred from the trustee to the beneficiary, the taxable amount of income is the value of the option. If the options have been exercised, the taxable amount of income is the difference between the aggregate fair market value of the shares at the time of such sale or transfer and the aggregate exercise price paid for such shares.

Under the compensation income tax track, the Work Income Options and the underlying shares have to be held in trust for at least 12 months from their date of grant. Any gain made on the sale of shares is subject to compensation income tax at the personal marginal tax rate of the respective participant; the amount of gain is the difference between the sales proceeds from the sale of shares and the exercise price paid for such shares. Work Income Options are not taxed on their date of grant, but rather when the options or the underlying shares of such options are sold by the trustee or transferred from the trustee to the beneficiary. At such time, if the options have not been exercised, the taxable amount of income is the value of the option. If the options have been exercised, the taxable amount of income is the difference between the aggregate fair market value of the shares at the time of such sale or transfer and the aggregate exercise price paid for such shares.

A corporate tax deduction is available for the employer in the tax year in which tax is withheld. The deductible amount is equal to any amount included by a participant as compensation income, except when a participant is granted Capital Gains Options, including in the event that such Capital Gains Options or the underlying shares of such options are sold by the trustee or transferred from the trustee to the beneficiary before the end of the applicable 24 month period. In such event, any resulting income to the participant is deemed to be compensation income for tax purposes, but there would be no corresponding corporate tax deduction available to the employer.

*Grant Not Through a Trustee.* In the case of options not made through a trustee, if the shares are non-marketable securities, the option will not be subject to tax at the date of grant of the option or the exercise of the option. However, ordinary income tax will be payable upon the sale of the shares acquired upon exercise of the option. The taxable amount will be the sales proceeds less the aggregate exercise price paid by the participant. If the shares covered by the option have a market value, then the value of the option is treated as compensation income, and subject to tax at the date of grant. There is no tax upon the exercise of the option. However, capital gains tax will be payable on the sale of the shares upon exercise of the option. The taxable amount will be the sales proceeds, less the value that was taxed at the date of grant and the aggregate exercise price paid by the participant.

*Grant of Section 3(i) Options.* Options under Section 3(i) of the Ordinance may be granted to Controlling Members, consultants, service providers and controlling stockholders (which are excluded from the term employees under Section 102 of the Ordinance). Grants of options for shares which are non-marketable are not taxed under the income tax rules on the date of grant, but such event creates VAT liability. However, they are subject to tax at the time of exercise at the ordinary income tax rate, and at the day such shares or sold at the capital gains tax rate. The difference between the fair market value of the shares at the time of exercise and the exercise price is taxed at the ordinary income tax rate. Any gain above such value at the time of sale of the shares is taxed at the capital gains rate. Grants of options for shares which have a market value are subject to tax on the date of grant, exercise of the option, and the sale of the shares. The value of the option is taxed on the date of grant at the ordinary income tax rate. The difference between the fair market value of the shares at the time of exercise and the sum of the exercise price and the amounts previously taxed at grant, is taxed at the ordinary income tax rate. Any gain above such value at the time of sale of the shares is taxed at the capital gains rate.

*Restricted Stock.* In the event that restricted stock is issued under Section 102 of the Ordinance and held with a trustee, the tax treatment to the stockholder will be the same as that of Approved 102 Options. If restricted stock is granted under Section 102 of the Ordinance without being held by a trustee, or through the Section 3(i) of the Ordinance, the stockholder will have to get a tax ruling from the Israeli Tax Authority for the postponement of the tax event arising from the issuance of the restricted stock, from the restricted stock issuance date to the date when the restriction on the restricted stock is removed, otherwise it might cause an immediate tax event to the stockholder with an immediate withholding tax obligation of the Company.

*Other Stock Incentives.* All other incentives under the Israeli Plan need a tax ruling from the Israeli Tax Authority for the postponement of the tax event arising from the issuance thereof. Otherwise there is an immediate tax event.

**New Plan Benefits**

With respect to the increased number of shares reserved under the 2013 Plan pursuant to the Fourth Amendment, we cannot currently determine the benefits or number of shares subject to awards that may be granted in the future to eligible participants under the 2013 Plan because the grant of awards and terms of such awards are to be determined in the sole discretion of the compensation committee.

The market value of our common stock is \$0.395 per share based on the closing price of our common stock on August 15, 2017.

**Effect of Approval of the Reverse Stock Split Proposal (Proposal 2)**

If stockholders approve the Reverse Stock Split Proposal (Proposal 2), which would authorize the board of directors, in its discretion, to amend our Amended and Restated Certificate of Incorporation to effect a reverse stock split of our issued and outstanding common stock at a ratio in the range of 1-for-10 to 1-for-25, such ratio to be determined by the board of directors, then, effective upon such reverse stock split, the 40,000,000 shares proposed to be added by the Fourth Amendment would be reduced to between 4,000,000 and 1,600,000 shares, and the total shares authorized under the 2013 Plan would be reduced to between 4,690,800 and 2,290,800 shares.

**Vote Required**

Pursuant to Section 711 of the NYSE American Company Guide, the Incentive Plan Proposal (Proposal 1) must be approved by a majority of the votes cast on such proposal with abstentions counting as votes cast. Therefore, the affirmative vote of the holders of a majority of the shares of our voting securities represented in person or by proxy at the Special Meeting entitled to vote on such proposal that cast a vote for, against or abstain from such proposal is required for the approval of the Incentive Plan Proposal (Proposal 1).

**The board of directors recommends a vote *FOR* the approval of the Incentive Plan Proposal (Proposal 1).**

## **PROPOSAL 2: APPROVAL OF THE REVERSE STOCK SPLIT PROPOSAL**

### **General**

On August 15, 2017, our board of directors unanimously adopted resolutions approving, declaring advisable and recommending to the stockholders for their approval a proposal to authorize the board of directors, in its discretion, to amend our Certificate of Incorporation to effect a reverse stock split of our issued and outstanding common stock at a ratio in the range of 1-for-10 to 1-for-25, such ratio to be determined by the board of directors (the “Reverse Stock Split”). Approval of this proposal will grant the board of directors the authority, without further action by the stockholders, to carry out such action any time prior to the annual meeting of our stockholders in 2018, with the exact exchange ratio and timing to be determined at the discretion of the board of directors. The board of directors may determine in its discretion not to effect the Reverse Stock Split and not to file any amendment to our Certificate of Incorporation. If stockholders approve this proposal and we effect the Reverse Stock Split, then between every 10 and 25 issued and outstanding shares of our issued and outstanding common stock (and between every 10 and 25 shares of our common stock, if any, that are treasury shares) would be combined and reclassified into one share of common stock. This proposal would not change the total number of shares of all classes of stock we have authority to issue or the number of authorized shares of our preferred stock.

If we effect the Reverse Stock Split, then, except for adjustments that may result from the treatment of fractional shares as described below, each stockholder will hold the same percentage of then-outstanding common stock immediately following the Reverse Stock Split that such stockholder held immediately prior to the Reverse Stock Split. The par value of our common stock would remain unchanged at \$0.0001 per share.

If approved, this proposal would approve the amendment to our Certificate of Incorporation set forth in [Annex C](#) (the “Certificate of Amendment”) solely to the extent such amendment relates to the Reverse Stock Split.

### **Reasons for the Reverse Stock Split**

We believe that the Reverse Stock Split could enhance the appeal of our common stock to the financial community, including institutional investors, and the general investing public. We believe that a number of institutional investors and investment funds are reluctant to invest in lower-priced securities and that brokerage firms may be reluctant to recommend lower-priced stock to their clients, which may be due in part to a perception that lower-priced securities are less promising as investments, are less liquid in the event that an investor wishes to sell its shares, or are less likely to be followed by institutional securities research firms and therefore to have less third-party analysis of the company available to investors. In addition, certain institutional investors or investment funds may be prohibited from buying

stocks whose price is below a certain threshold. We believe that the reduction in the number of issued and outstanding shares of the common stock caused by the Reverse Stock Split, together with the anticipated increased stock price immediately following and resulting from the Reverse Stock Split, may encourage interest and trading in our common stock and thus possibly promote greater liquidity for our stockholders, thereby resulting in a broader market for the common stock than that which currently exists.

In addition, our board of directors is recommending the Reverse Stock Split to provide us with the flexibility we require to issue shares in the future on a timely basis in the event that the board of directors determines that it is necessary or appropriate to (i) raise additional capital through the sale of equity securities, (ii) enter into strategic business transactions, (iii) provide equity incentives to directors, officers and employees pursuant to equity compensation plans or (iv) further other corporate purposes. The respective certificate of designation for our Series B Convertible Preferred Stock we sold in a public offering in July 2016 and our Series C Convertible Preferred Stock contains anti-dilution provisions, which provisions require the lowering of the applicable conversion price, as then in effect, to the purchase price of equity or equity-linked securities issued in subsequent offerings, which will result in a greater number of shares of common stock being issuable upon conversion of the Series B Convertible Preferred Stock or the Series C Convertible Preferred Stock. Considering such obligations to reserve and issue additional shares of common stock under the respective certificate of designation for our Series B Convertible Preferred Stock and our Series C Convertible Preferred Stock and the range of sales prices for our common stock in recent periods, we believe that our ability to raise additional capital through the sale of equity securities would be significantly limited due to insufficient authorized capital in the absence of the Reverse Stock Split. The availability of additional shares of common stock is particularly important in the event that the board of directors needs to undertake any of the foregoing actions on an expedited basis, as market conditions permit and favorable financing and business opportunities become available, and thus without the potential delay and expense associated with convening a special stockholders' meeting. In addition, considering our current cash position and taking into account the cash received from the July 2016 and March 2017 financings and our projected operations, we do not think that we have sufficient resources to fund our business operations beyond February 2018. Therefore, we believe that approval of the Reverse Stock Split is necessary to provide the flexibility that we require to raise capital through the sale of our equity securities. As such, in considering and planning for our current and future corporate needs, our board of directors believes that we need to make available authorized and unreserved shares of common stock for issuance.

We cannot assure you that all or any of the anticipated beneficial effects on the trading market for our common stock will occur. Our board of directors cannot predict with certainty what effect the Reverse Stock Split will have on the market price of the common stock, particularly over the longer term. Some investors may view a reverse stock split negatively, which could result in a decrease in our market capitalization. Additionally, any improvement in liquidity due to increased institutional or brokerage interest or lower trading commissions may be offset by the lower number of outstanding shares.

In addition to increasing our common stock price to a level more appealing for investors, we believe that the Reverse Stock Split would have other benefits:

*Compliance with the NYSE American Continued Listing Requirements.* Our common stock is currently listed on the NYSE American, and the NYSE American has certain continued listing standards under which it will normally give consideration to suspending dealings in, or removing, a security from listing or unlisted trading, including market capitalization, stockholders' equity and low selling price issues. We believe that being listed on the NYSE American helps support and maintain liquidity of our common stock and company recognition and that the Reverse Stock Split will increase our ability to continue to meet the continued listing standards of the NYSE American.

*Decreased Stock Price Volatility.* The intended increase in our stock price could decrease price volatility, as currently small changes in the price of the common stock result in relatively large percentage changes in the stock price.

### **Board Discretion to Implement the Reverse Stock Split**

The board of directors believes that stockholder approval of a range of Reverse Stock Split ratios (rather than a single exchange ratio) is in the best interests of our stockholders because it provides the board of directors with the flexibility to achieve the desired results of the Reverse Stock Split and because it is not possible to predict market conditions at the time the Reverse Stock Split would be implemented. If stockholders approve this proposal, the board of directors would carry out a reverse stock split only upon the board of directors' determination that a reverse stock split would be in the best interests of the stockholders at that time. The board of directors would then set the ratio for the Reverse Stock Split within the range approved by stockholders and in an amount it determines is advisable and in the best interests of the stockholders considering relevant market conditions at the time the reverse stock split is to be implemented. In determining the Reverse Stock Split ratio, following receipt of stockholder approval, the board of the directors may consider numerous factors including:

the historical and projected performance of our common stock;

general economic and other related conditions prevailing in our industry and in the marketplace;



the projected impact of the reverse stock split ratio on trading liquidity in our common stock and our ability to continue our common stock's listing on the NYSE American;

our capitalization (including the number of shares of common stock issued and outstanding);

the then-prevailing trading price for our common stock and the volume level thereof; and

potential devaluation of our market capitalization as a result of a reverse stock split.

The board of directors intends to select a reverse stock split ratio that it believes would be most likely to achieve the anticipated benefits of the reverse stock split described above.

### **Certain Risks Associated with the Reverse Stock Split**

Before voting on this proposal, you should consider the following risks associated with effecting the Reverse Stock Split:

Although we expect that the Reverse Stock Split will result in an increase in the market price of our common stock, we cannot assure you that the Reverse Stock Split, if effected, will increase the market price of our common stock in proportion to the reduction in the number of shares of our common stock outstanding or result in a permanent increase in the market price. The effect the Reverse Stock Split may have upon the market price of our common stock cannot be predicted with any certainty, and the history of similar reverse stock splits for companies in similar circumstances to ours is varied. The market price of our common stock is dependent on many factors, including our business and financial performance, general market conditions, prospects for future success and other factors detailed from time to time in the reports we file with the Securities and Exchange Commission. Accordingly, the total market capitalization of our common stock after the proposed Reverse Stock Split may be lower than the total market capitalization before the proposed Reverse Stock Split and, in the future, the market price of our common stock following the Reverse Stock Split may not exceed or remain higher than the market price prior to the proposed Reverse Stock Split.

Even if our stockholders approve the Reverse Stock Split and the Reverse Stock Split is effected, there can be no assurance that we will continue to meet the NYSE American continued listing requirements.

The Reverse Stock Split may result in some stockholders owning “odd lots” of less than 100 shares of common stock on a post-split basis. These odd lots may be more difficult to sell, or require greater transaction costs per share to sell, than shares in “round lots” of even multiples of 100 shares.

While the board of directors believes that a higher stock price may help generate investor interest, there can be no assurance that the Reverse Stock Split will result in a per share price that will attract institutional investors or investment funds or that such share price will satisfy the investing guidelines of institutional investors or investment funds. As a result, the trading liquidity of our common stock may not necessarily improve.

Although the board of directors believes that the decrease in the number of shares of common stock outstanding as a consequence of the Reverse Stock Split and the anticipated increase in the market price of common stock could encourage interest in our common stock and possibly promote greater liquidity for our stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the Reverse Stock Split.

## **Principal Effects of the Reverse Stock Split**

### *Effect on Existing Common Stock*

If the Reverse Stock Split is approved and effected, the number of shares of common stock issued and outstanding will be reduced from 7,465,889 shares (as of August 15, 2017, 2017) to between approximately 746,925 shares and 299,024 shares, depending on which exchange ratio is ultimately effected. Except for the change resulting from the adjustment for fractional shares (described below), the change in the number of shares of common stock outstanding that will result from the Reverse Stock Split will not affect any stockholder’s percentage ownership in the Company. The relative voting and other rights that accompany the shares of common stock would not be affected by the Reverse Stock Split.

Although the Reverse Stock Split will not have any dilutive effect on our stockholders (other than de minimus adjustments that may result from the treatment of fractional shares), the proportion of shares owned by our stockholders relative to the number of shares authorized for issuance will decrease because the number of authorized shares of common stock would remain at 150,000,000. As a result, additional authorized shares of common stock will be available for issuance at such times and for such purposes as the board of directors may deem advisable without further action by our stockholders, except as required by applicable laws and regulations. To the extent that additional authorized shares are issued in the future, such shares could be dilutive to our existing stockholders by decreasing such stockholders' percentage of equity ownership in the Company. Please see "Potential Anti-Takeover Effect" below for more information on potential anti-takeover effects of the Reverse Stock Split.

*Effect on Authorized and Outstanding Preferred Stock*

Currently, we are authorized to issue up to a total of 5,000,000 shares of preferred stock, par value \$0.0001 per share, of which 20,000 shares are designated as Series A Preferred Stock, 500,000 shares are designated as Series B Convertible Preferred Stock, and 1,172,000 shares are designated as Series C Convertible Preferred Stock. As of August 15, 2017, no Series A Preferred Stock, 180,992 shares of Series B Convertible Preferred Stock and 743,213 shares of Series C Convertible Preferred Stock are issued and outstanding. The proposed Reverse Stock Split will cause a reduction in the number of shares of common stock issuable upon conversion of such preferred stock in proportion to the exchange ratio of the Reverse Stock Split and will cause a proportionate increase in the conversion price of such shares of preferred stock. However, the proposed Reverse Stock Split would not impact the authorized number of shares of preferred stock, the number of outstanding shares of preferred stock or the par value of the preferred stock.

*Effect on Equity Compensation Plans and Outstanding Warrants*

The proposed Reverse Stock Split will reduce the number of shares of common stock available for issuance under the 2013 Plan in proportion to the exchange ratio selected by the board of directors (including the 40,000,000 shares proposed to be added by the Incentive Plan Proposal (Proposal 1), which will be reduced to between 4,000,000 and 1,600,000 shares).

Under the terms of our outstanding equity awards and warrants, the proposed Reverse Stock Split will cause a reduction in the number of shares of common stock issuable upon exercise or vesting of such awards and warrants in proportion to the exchange ratio of the Reverse Stock Split and will cause a proportionate increase in the exercise price of such awards and warrants. The number of shares of common stock issuable upon exercise or vesting of outstanding equity awards and warrants will be rounded up to the nearest whole share and no cash payment will be made in respect of such rounding.

The following table contains approximate information relating to our common stock immediately following the Reverse Stock Split under certain possible exchange ratios, based on share information as of August 15, 2017:

	August 15, 2017	1-for-10	1-for-15	1-for-20	1-for-25
Number of authorized shares of common stock	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000

Edgar Filing: InspireMD, Inc. - Form PRE 14A

Number of outstanding shares of common stock	7,465,889	746,925	498,194	373,684	299,024
Number of shares of common stock reserved for issuance upon conversion of the preferred stock and payment of dividends	9,505,532	950,548	633,683	475,269	380,209
Number of shares of common stock reserved for issuance upon exercise of outstanding stock options and warrants	10,957,844	1,095,928	730,744	548,062	438,485
Number of shares of common stock reserved for issuance in connection with future awards under our equity compensation plans	288,282	28,784	19,142	14,361	11,485
Additional number of shares of common stock reserved for issuance in connection with future awards under our equity compensation plans pursuant to the Fourth Amendment to the 2013 Plan (1)	-	4,000,000	2,666,667	2,000,000	1,600,000
Number of authorized and unreserved shares of common stock not outstanding	121,782,453	143,177,185	145,451,570	146,588,624	147,270,797

(1) Assuming approval of the Incentive Plan Proposal (Proposal 1).

*Potential Anti-Takeover Effect*

Since the Reverse Stock Split will result in increased available shares, the Reverse Stock Split may be construed as having an anti-takeover effect. Although neither the board of directors nor management views this proposal as an anti-takeover measure, we could use the increased available shares to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. For example, we could privately place shares with purchasers who might side with the board of directors in opposing a hostile takeover bid or issue shares to a holder that would, thereafter, have sufficient voting power to assure that any proposal to amend or repeal our amended and restated bylaws or certain provisions of the Certificate of Incorporation would not receive the requisite vote. Our Certificate of Incorporation already includes authorization of preferred stock, which can also be seen as an anti-takeover measure, and our board of directors can designate the rights, preferences, privileges and restrictions of series of preferred stock without further stockholder action. Our Certificate of Incorporation and amended and restated bylaws also include other provisions that may have an anti-takeover effect. These provisions:

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.

There are no other plans or proposals to adopt other provisions or enter into other arrangements that may have material anti-takeover consequences.

### *Accounting Matters*

The par value per share of our common stock will remain unchanged at \$0.0001 per share after the Reverse Stock Split. As a result of the Reverse Stock Split, at the effective time, the stated capital on the Company's balance sheet attributable to the common stock, which consists of the par value per share of the common stock multiplied by the aggregate number of shares of the common stock issued and outstanding, will be reduced in proportion to the reverse stock split ratio. Correspondingly, the Company's additional paid-in capital account, which consists of the difference between the Company's stated capital and the aggregate amount paid to the Company upon issuance of all currently outstanding shares of common stock, will be credited with the amount by which the stated capital is reduced. The Company's stockholders' equity, in the aggregate, will remain unchanged. In addition, the per share net income or loss of our common stock, for all periods, will be restated because there will be fewer outstanding shares of common stock.

### **Effective Date**

If this proposal is approved and our board of directors determines to effect the Reverse Stock Split, we will file the proposed Certificate of Amendment with the Secretary of State of the State Delaware. The Reverse Stock Split will become effective at such time set forth in the Certificate of Amendment filed with the Secretary of State of the State Delaware, with the exact timing to be determined at the discretion of our board of directors.

If this proposal is approved, no further action on the part of stockholders would be required to either effect or abandon the Reverse Stock Split. If the board of directors does not implement the Reverse Stock Split prior to the annual meeting of our stockholders in 2018, the authority granted in this proposal to implement the Reverse Stock Split will terminate. The board of directors reserves its right to elect not to proceed and abandon the Reverse Stock Split if it determines, in its sole discretion, that this proposal is no longer in the best interests of our stockholders.

### **Mechanics of the Reverse Stock Split**

Beginning on the effective date of the Reverse Stock Split, each certificate representing pre-split shares will, until surrendered and exchanged as described below, for all corporate purposes, be deemed to represent, respectively, only the number of post-split shares.

### *Exchange of Stock Certificates*

Shortly after the Reverse Stock Split becomes effective, stockholders will be notified and offered the opportunity at their own expense to surrender their current certificates to our stock transfer agent in exchange for the issuance of new certificates reflecting the Reverse Stock Split in accordance with the procedures to be set forth in a letter of transmittal to be sent by our stock transfer agent. In connection with the Reverse Stock Split, the CUSIP number for the common stock will change from its current CUSIP number. This new CUSIP number will appear on any new stock certificates issued representing post-split shares.

**Stockholders should not destroy any share certificate(s) and should not submit any share certificate(s) until following the announcement by the Company of the completion of the Reverse Stock Split.**

*Effect on Registered “Book-entry” Holders of Common Stock*

Holders of common stock may hold some or all of their common stock electronically in book-entry form (“street name”) under the direct registration system for securities. These stockholders will not have stock certificates evidencing their ownership. They are, however, provided with a statement reflecting the number of shares of common stock registered in their accounts. If you hold registered common stock in book-entry form, you do not need to take any action to receive your post-split shares, if applicable.

*Fractional Shares*

No fractional shares will be issued. Any fractional share resulting from the Reverse Stock Split will be rounded up to the next whole share.



## Dissenters' or Appraisal Rights

Under the Delaware General Corporation Law, our stockholders are not entitled to any dissenters' or appraisal rights with respect to the Reverse Stock Split, and we will not independently provide stockholders with any such right.

## U.S. Federal Income Tax Considerations

The following is a general summary of certain U.S. federal income tax consequences of the Reverse Stock Split that may be relevant to stockholders. This summary is based upon the provisions of the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions as of the date hereof, all of which may change, possibly with retroactive effect, resulting in U.S. federal income tax consequences that may differ from those discussed below. This summary only applies to stockholders that hold our common stock as capital assets within the meaning of Code Section 1221 (generally, property held for investment). This discussion is a summary for general information purposes only and does not address all aspects of U.S. federal income taxation that may be relevant to stockholders in light of their particular circumstances or to stockholders that may be subject to special tax rules, including, without limitation: (i) stockholders subject to the alternative minimum tax; (ii) banks, insurance companies, or other financial institutions; (iii) tax-exempt organizations; (iv) dealers in securities or commodities; (v) regulated investment companies or real estate investment trusts; (vi) partnerships (including entities or arrangements treated as partnerships for U.S. federal income tax purposes and their partners or members); (vii) traders in securities that elect to use the mark-to-market method of accounting; (viii) U.S. stockholders whose "functional currency" is not the U.S. dollar; (ix) persons holding our common stock in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction; (x) persons who acquired our common stock in connection with employment or the performance of services; or (xii) U.S. expatriates.

In addition, this summary of certain U.S. federal income tax consequences does not address the tax consequences arising under the laws of any foreign, state or local jurisdiction or any U.S. federal tax consequences other than U.S. federal income taxation (such as the U.S. federal estate and gift tax consequences). If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Partnerships holding our common stock and the partners therein should consult their tax advisors regarding the tax consequences to them of the Reverse Stock Split.

The Company has not sought, and will not seek, an opinion of counsel or a ruling from the Internal Revenue Service ("IRS") regarding the U.S. income tax consequences of the Reverse Stock Split and there can be no assurance that the IRS will not challenge the statements and conclusions set forth below and that a court would not sustain any such challenge. **ACCORDINGLY, EACH STOCKHOLDER SHOULD CONSULT ITS TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT TO SUCH**

**STOCKHOLDER.**

*Taxation of Stockholders.*

The Reverse Stock Split will constitute a “recapitalization” for U.S. federal income tax purposes. As a result, a stockholder should not recognize gain or loss as a result of the Reverse Stock Split. A stockholder’s aggregate tax basis in the shares of the common stock received pursuant to the Reverse Stock Split should equal the stockholder’s aggregate tax basis in the shares of the common stock surrendered, and such stockholder’s holding period in the shares of the common stock received should include the holding period of the shares of the common stock surrendered.

*Taxation of the Company.*

The Company will not recognize any gain or loss as a result of the Reverse Stock Split.

### **Certain Israeli Federal Income Tax Considerations**

The following discussion summarizing certain Israeli income tax consequences for Israeli stockholders is based on the Israeli Income Tax Ordinance [New Version], 1961, as amended (the “Tax Ordinance”), Taxation Decision No. 15/07 of the Israeli Tax Authority (the “Taxation Decision”), all of which may change, possibly with retroactive effect, resulting in Israeli income tax consequences that may differ from those discussed below, and is for general information only. The Company has not sought, and will not seek, an opinion of counsel or a ruling from the Israeli Tax Authority regarding the Israeli income tax consequences of the Reverse Stock Split and there can be no assurance that the Israeli Tax Authority will not challenge the statements and conclusions set forth below and that a court would not sustain any such challenge. **ACCORDINGLY, EACH STOCKHOLDER SHOULD CONSULT ITS TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT TO SUCH STOCKHOLDER.**

Generally, a reverse stock split will not result in the recognition of gain or loss for Israeli income tax purposes. The adjusted tax basis of the aggregate number of new shares of common stock will be the same as the adjusted tax basis of the aggregate number of shares of common stock held by a stockholder immediately prior to the Reverse Stock Split and the holding period of the shares of common stock after the Reverse Stock Split will include the holding period of the shares of common stock held prior to the Reverse Stock Split. No gain or loss will be recognized by the Company as a result of the Reverse Stock Split. In a previous matter, the Israeli Tax Authority determined in 2007 in the Taxation Decision that a reverse stock split shall not be deemed a “sale” under Section 88 of the Tax Ordinance subject, inter alia, to the following terms: (i) the Reverse Stock Split will be made pursuant to an identical conversion ratio to all shares and stockholders of the Company; (ii) as a result of the Reverse Stock Split there shall not be any change in the rights of the Company’s stockholders, including rights to distribution of assets and voting rights; (iii) the Reverse Stock Split shall not include any consideration in cash or equivalent, and shall not be related to any economic benefit to the Company’s stockholders; (iv) the Reverse Stock Split and the equalization of rights as a result thereof will not entitle the stockholders to any compensation; (v) the economic value of the total amount of outstanding shares of the Company shall not be changed as a result of the Reverse Stock Split; and (vi) other than the change in the amount of the Company’s outstanding shares, there shall be no change regarding such shares. The Taxation Decision provides that if all such conditions are met, a tax continuity shall apply to the shares such that the original purchase price and date of such shares shall not be changed for tax purposes.

### **Vote Required**

Approval of the Reverse Stock Split Proposal (Proposal 2) requires the affirmative vote of the holders of a majority of the shares of our common stock outstanding and entitled to vote on such proposal at the Special Meeting.

**The board of directors recommends a vote *FOR* the Reverse Stock Split Proposal (Proposal 2).**

### **PROPOSAL 3: THE ADJOURNMENT PROPOSAL**

#### **General**

The Company is asking its stockholders to approve the Adjournment Proposal.

#### **Vote Required**

The approval of the Adjournment Proposal requires the affirmative vote of a majority of the votes cast on the Adjournment Proposal.

**The board of directors recommends a vote *FOR* the Adjournment Proposal (Proposal 3).**

#### **OTHER BUSINESS**

The board of directors knows of no other business to be brought before the Special Meeting. If, however, any other business should properly come before the Special Meeting, the persons named in the accompanying proxy will vote the proxy in accordance with applicable law and as they may deem appropriate in their discretion, unless directed by the proxy to do otherwise.

#### **SUBMISSION OF FUTURE STOCKHOLDER PROPOSALS**

Pursuant to rules of the SEC, a stockholder who intends to present a proposal at our next annual meeting of stockholders and who wishes the proposal to be included in the proxy statement for that meeting must submit the proposal to us in writing to the attention of the Secretary at InspireMD, Inc., 4 Menorat Hamaor St., Tel Aviv, Israel 6744832. The proposal must be received no later than January 15, 2018, after which date such stockholder proposal will be considered untimely. Stockholders wishing to submit nominations of persons for election to the board of

directors or proposals of business to be presented directly at the annual meeting instead of for inclusion in next year's proxy statement must follow the submission criteria and deadlines set forth in our amended and restated bylaws. To be timely in connection with our next annual meeting, such a stockholder nomination or proposal must be received by our Secretary at our principal executive offices between March 1, 2018 and March 31, 2018.

**Annex A**

**FOURTH AMENDMENT TO THE  
INSPIREMD, INC. 2013 LONG-TERM INCENTIVE PLAN**

This FOURTH AMENDMENT TO THE INSPIREMD, INC. 2013 LONG-TERM INCENTIVE PLAN (this “*Amendment*”), dated as of [ ], 2017, is made and entered into by InspireMD, Inc., a Delaware corporation (the “*Company*”). Terms used in this Amendment with initial capital letters that are not otherwise defined herein shall have the meanings ascribed to such terms in the InspireMD, Inc. 2013 Long-Term Incentive Plan (the “*Plan*”).

**RECITALS**

**WHEREAS**, Article 9 of the Plan provides that the Company’s Board of Directors (the “*Board*”) may amend the Plan at any time and from time to time;

**WHEREAS**, the Company previously reserved a total of nine million seven hundred thousand (9,700,000) shares of common stock of the Company, par value \$0.0001 (the “*Common Stock*”), to be delivered pursuant to awards under the Plan;

**WHEREAS**, on October 1, 2015, the Company effected a one-for-ten reverse stock split such that, after giving effect to the reverse stock split, there were nine hundred seventy thousand (970,000) shares of Common Stock reserved for issuance under the Plan;

**WHEREAS**, on April 18, 2016, the Board, and, on May 24, 2016, at the Company’s 2016 annual meeting of stockholders, the stockholders, approved an amendment to the Plan to increase the number of shares of Common Stock available for issuance pursuant to awards under the Plan by ten million (10,000,000) shares, to a total of ten million nine hundred seventy thousand (10,970,000) shares of common stock;

**WHEREAS**, on August 4, 2016, the Board, and on September 28, 2016, at the Company’s special meeting of stockholders, the stockholders, approved an amendment to the Plan to increase the number of shares of Common

Stock available for issuance under the Plan by six million three hundred thousand (6,300,000) shares, to a total of seventeen million two hundred seventy thousand (17,270,000) shares of common stock;

**WHEREAS**, on October 7, 2016, the Company effected a 1-for-25 reverse stock split such that, after giving effect to the reverse stock split, there were six hundred ninety thousand eight hundred (690,800) shares of Common Stock reserved for issuance pursuant to awards under the Plan;

**WHEREAS**, the Board desires to amend the Plan to increase the number of shares of Common Stock that may be delivered pursuant to awards under the Plan by an additional forty million (40,000,000) shares, for an aggregate maximum total of forty million six hundred ninety thousand eight hundred (40,690,800) shares available for issuance under the Plan; and

**WHEREAS**, the Board intends to submit this Amendment to the Company's stockholders for approval;

**NOW, THEREFORE**, in accordance with Article 9 of the Plan and subject to stockholder approval, the Plan is hereby amended, effective as of the date hereof, as follows:

1. Section 5.1 of the Plan is hereby amended by deleting said section in its entirety and substituting in lieu thereof the following new Section 5.1:

**5.1 Number Available for Awards.** Subject to adjustment as provided in Articles 11 and 12, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is forty million six hundred ninety thousand eight hundred (40,690,800) shares, of which one hundred percent (100%) may be delivered pursuant to Incentive Stock Options. Subject to adjustment pursuant to Articles 11 and 12, the maximum number of shares of Common Stock with respect to which Stock Options or SARs may be granted to an Executive Officer during any calendar year is one hundred thousand (100,000) shares of Common Stock. Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.

2. Except as expressly amended by this Amendment, the Plan shall continue in full force and effect in accordance with the provisions thereof.

*[Remainder of Page Intentionally Left Blank]*



*Signature Page Follows.]*

Annex A-1

**IN WITNESS WHEREOF**, the Company has caused this Amendment to be duly executed as of the date first written above.

**INSPIREMD, INC.**

By:

Name: Craig Shore

Title: Chief Financial Officer, Chief Administrative Officer, Treasurer and Secretary

*Signature Page to*

*Fourth Amendment to the 2013 Long-Term Incentive Plan*

Annex A-2

**Annex B**

**INSPIREMD, INC.**

**2013 LONG-TERM INCENTIVE PLAN**

The InspireMD, Inc. 2013 Long-Term Incentive Plan (the “*Plan*”) was adopted by the Board of Directors of InspireMD, Inc., a Delaware corporation (the “*Company*”), effective as of October 25, 2013, subject to approval by the Company’s stockholders.

**Article 1**

**PURPOSE**

The purpose of the Plan is to attract and retain the services of key Employees, key Contractors, and Outside Directors of the Company and its Subsidiaries (together, the “*Group*”) and to provide such persons with a proprietary interest in the Company through the granting of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards, Dividend Equivalent Rights, and Other Awards, whether granted singly, or in combination, or in tandem, that will:

- (a) increase the interest of such persons in the Group’s welfare;
- (b) furnish an incentive to such persons to continue their services for the Company or its Subsidiaries; and
- (c) provide a means through which the Group may attract able persons as Employees, Contractors, and Outside Directors.

This Plan is intended serve as an “umbrella” plan for the Company and the entire Group worldwide. Therefore, if so required, appendices may be added to the Plan for the various international Subsidiaries in order to accommodate local regulations that do not correspond to the scope of the Plan, at the discretion of the Board. Any such appendices that the Company approves for purposes of using this Plan for an international Subsidiary will not affect the terms of

this Plan for any other country.

Attached hereto as Appendix A is the InspireMD, Inc. 2013 Employee Stock Incentive Plan (the “*Israeli Plan*”), designated for the purpose of making grants pursuant to Sections 102 and 3(i) of the Israeli Income Tax Ordinance (New Version), 1961 to Israeli employees and officers of the Group and any other service providers or control holders of the Company who are subject to Israeli Income Tax.

With respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, such provision or action shall be deemed null and void *ab initio*, to the extent permitted by law and deemed advisable by the Committee.

## Article 2

### DEFINITIONS

For the purpose of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

2.1 “*Applicable Law*” means all legal requirements relating to the administration of equity incentive plans and the issuance and distribution of shares of Common Stock, if any, under applicable corporate laws, applicable securities laws, the rules of any exchange or inter-dealer quotation system upon which the Company’s securities are listed or quoted, the rules of any foreign jurisdiction applicable to Incentives granted to residents therein, and any other applicable law, rule or restriction.

2.2 “*Award*” means the grant of any Incentive Stock Option, Nonqualified Stock Option, Restricted Stock, SAR, Restricted Stock Units, Performance Award, Dividend Equivalent Right or Other Award, whether granted singly or in combination or in tandem (each individually referred to herein as an “*Incentive*”).

Annex B-1

2.3 “**Award Agreement**” means a written agreement between a Participant and the Company which sets out the terms of the grant of an Award.

2.4 “**Award Period**” means the period set forth in the Award Agreement during which one or more Incentives granted under an Award may be exercised.

2.5 “**Board**” means the board of directors of the Company.

2.6 “**Change in Control**” means any of the following, except as otherwise provided herein: (i) any consolidation, merger or share exchange of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company’s Common Stock would be converted into cash, securities or other property, other than a consolidation, merger or share exchange of the Company in which the holders of the Company’s Common Stock immediately prior to such transaction have the same proportionate ownership of Common Stock of the surviving corporation immediately after such transaction; (ii) any sale, lease, exchange or other transfer (excluding transfer by way of pledge or hypothecation) in one transaction or a series of related transactions, of all or substantially all of the assets of the Company; (iii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; (iv) the cessation of control (by virtue of their not constituting a majority of directors) of the Board by the individuals (the “**Continuing Directors**”) who (x) at the date of this Plan were directors or (y) become directors after the date of this Plan and whose election or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds (2/3<sup>rd</sup>s) of the directors then in office who were directors at the date of this Plan or whose election or nomination for election was previously so approved; (v) the acquisition of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of an aggregate of fifty percent (50%) or more of the voting power of the Company’s outstanding voting securities by any person or group (as such term is used in Rule 13d-5 under the Exchange Act) who beneficially owned less than fifty percent (50%) of the voting power of the Company’s outstanding voting securities on the date of this Plan; provided, however, that notwithstanding the foregoing, an acquisition shall not constitute a Change in Control hereunder if the acquirer is (x) a trustee or other fiduciary holding securities under an employee benefit plan of the Company and acting in such capacity, (y) a Subsidiary of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of voting securities of the Company or (z) any other person whose acquisition of shares of voting securities is approved in advance by a majority of the Continuing Directors; or (vi) in a Title 11 bankruptcy proceeding, the appointment of a trustee or the conversion of a case involving the Company to a case under Chapter 7.

Notwithstanding the foregoing provisions of this Section 2.6, if an Award issued under the Plan is subject to Section 409A of the Code, then an event shall not constitute a Change in Control for purposes of such Award under the Plan unless such event also constitutes a change in the Company’s ownership, its effective control or the ownership of a substantial portion of its assets within the meaning of Section 409A of the Code.

2.7 “**Code**” means the United States Internal Revenue Code of 1986, as amended.

2.8 “**Committee**” means the committee appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.

2.9 “**Common Stock**” means the common stock, par value \$0.0001 per share, which the Company is currently authorized to issue or may in the future be authorized to issue, or any securities into which or for which the common stock of the Company may be converted or exchanged, as the case may be, pursuant to the terms of this Plan.

2.10 “**Company**” means InspireMD, Inc., a Delaware corporation, and any successor entity.

2.11 “**Contractor**” means any natural person, who is not an Employee, rendering *bona fide* services to the Company or a Subsidiary, with compensation, pursuant to a written independent contractor agreement between such person (or any entity employing such person) and the Company or a Subsidiary, provided that such services are not rendered in connection with the offer or sale of securities in a capital raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities.

Annex B-2

2.12 “**Corporation**” means any entity that (i) is defined as a corporation under Section 7701 of the Code and (ii) is the Company or is in an unbroken chain of corporations (other than the Company) beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain. For purposes of clause (ii) hereof, an entity shall be treated as a “corporation” if it satisfies the definition of a corporation under Section 7701 of the Code.

2.13 “**Date of Grant**” means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement; provided, however, that solely for purposes of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder, the Date of Grant of an Award shall be the date of stockholder approval of the Plan if such date is later than the effective date of such Award as set forth in the Award Agreement.

2.14 “**Dividend Equivalent Right**” means the right of the holder thereof to receive credits based on the cash dividends that would have been paid on the shares of Common Stock specified in the Award if such shares were held by the Participant to whom the Award is made.

2.15 “**Employee**” means a common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company; provided, however, in the case of individuals whose employment status, by virtue of their employer or residence, is not determined under Section 3401(c) of the Code, “Employee” shall mean an individual treated as an employee for local payroll tax or employment purposes by the applicable employer under Applicable Law for the relevant period.

2.16 “**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

2.17 “**Executive Officer**” means an officer of the Company or a Subsidiary subject to Section 16 of the Exchange Act or a “covered employee” as defined in Section 162(m)(3) of the Code.

2.18 “**Fair Market Value**” means, as of a particular date, (a) if the shares of Common Stock are listed on any established national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal securities exchange for the Common Stock on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported; (b) if the shares of Common Stock are not so listed, but are quoted on an automated quotation system, the closing sales price per share of Common Stock reported on the automated quotation system on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported; (c) if the Common Stock is not so listed or quoted, the mean between the closing bid and asked price on that date, or, if there are no quotations

available for such date, on the last preceding date on which such quotations shall be available, as reported by the OTC Bulletin Board operated by the Financial Industry Regulation Authority, Inc. or the OTC Markets Group Inc., formerly known as Pink OTC Markets Inc.; or (d) if none of the above is applicable, such amount as may be determined by the Committee (acting on the advice of an Independent Third Party, should the Committee elect in its sole discretion to utilize an Independent Third Party for this purpose), in good faith, to be the fair market value per share of Common Stock. The determination of Fair Market Value shall, where applicable, be in compliance with Section 409A of the Code.

2.19 “**Incentive**” is defined in Section 2.2 hereof.

2.20 “**Incentive Stock Option**” means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.

2.21 “**Independent Third Party**” means an individual or entity independent of the Company having experience in providing investment banking or similar appraisal or valuation services and with expertise generally in the valuation of securities or other property for purposes of this Plan. The Committee may utilize one or more Independent Third Parties.

2.22 “**Nonqualified Stock Option**” means a nonqualified stock option, granted pursuant to this Plan, which is not an Incentive Stock Option.

Annex B-3



2.23 “**Option Price**” means the price which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

2.24 “**Other Award**” means an Award issued pursuant to Section 6.9 hereof.

2.25 “**Outside Director**” means a director of the Company who is not an Employee or a Contractor.

2.26 “**Participant**” means an Employee or Contractor of the Company or a Subsidiary or an Outside Director to whom an Award is granted under this Plan.

2.27 “**Performance Award**” means an Award hereunder of cash, shares of Common Stock, units or rights based upon, payable in, or otherwise related to, Common Stock pursuant to Section 6.7 hereof.

2.28 “**Performance Goal**” means any of the goals set forth in Section 6.10 hereof.

2.29 “**Plan**” means this InspireMD, Inc. 2013 Long-Term Incentive Plan, as amended from time to time.

2.30 “**Reporting Participant**” means a Participant who is subject to the reporting requirements of Section 16 of the Exchange Act.

2.31 “**Restricted Stock**” means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.4 of this Plan which are subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.

2.32 “**Restricted Stock Units**” means units awarded to Participants pursuant to Section 6.6 hereof, which are convertible into Common Stock at such time as such units are no longer subject to restrictions as established by the Committee.

2.33 “**Retirement**” means any Termination of Service solely due to retirement upon or after attainment of age sixty-five (65), or permitted early retirement as determined by the Committee; provided, however, in the case of Participants who reside in the European Economic Area, “Retirement” shall mean any Termination of Service as of a date they are eligible for mandatory retirement benefits under local law, without regard to age.

2.34 “**SAR**” or “**Stock Appreciation Right**” means the right to receive an amount, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock as of the date the SAR is exercised (or, as provided in the Award Agreement, converted) over the SAR Price for such shares.

2.35 “**SAR Price**” means the exercise price or conversion price of each share of Common Stock covered by a SAR, determined on the Date of Grant of the SAR.

2.36 “**Stock Option**” means a Nonqualified Stock Option or an Incentive Stock Option.

2.37 “**Subsidiary**” means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. “**Subsidiaries**” means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

2.38 “**Termination of Service**” occurs when a Participant who is (i) an Employee of the Company or any Subsidiary ceases to serve as an Employee of the Company and its Subsidiaries, for any reason; (ii) an Outside Director of the Company or a Subsidiary ceases to serve as a director of the Company and its Subsidiaries for any reason; or (iii) a Contractor of the Company or a Subsidiary ceases to serve as a Contractor of the Company and its Subsidiaries for any reason. Except as may be necessary or desirable to comply with applicable federal or state law, a “Termination of Service” shall not be deemed to have occurred when a Participant who is an Employee becomes an Outside Director or Contractor or vice versa. If, however, a Participant who is an Employee and who has an Incentive Stock Option ceases to be an Employee but does not suffer a Termination of Service, and if that Participant does not exercise the Incentive Stock Option within the time required under Section 422 of the Code upon ceasing to be an Employee, the Incentive Stock Option shall thereafter become a Nonqualified Stock Option. Notwithstanding the foregoing provisions of this Section 2.38, in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code, the definition of “Termination of Service” for purposes of such Award shall be the definition of “separation from service” provided for under Section 409A of the Code and the regulations or other guidance issued thereunder.

2.39 “**Total and Permanent Disability**” means a Participant is qualified for long-term disability benefits under the Company’s or Subsidiary’s disability plan or insurance policy; or, if no such plan or policy is then in existence or if the Participant is not eligible to participate in such plan or policy, that the Participant, because of a physical or mental condition resulting from bodily injury, disease, or mental disorder, is unable to perform his or her duties of employment for a period of six (6) continuous months, as determined in good faith by the Committee, based upon medical reports or other evidence satisfactory to the Committee; provided that, with respect to any Incentive Stock Option, Total and Permanent Disability shall have the meaning given it under the rules governing Incentive Stock Options under the Code. Notwithstanding the foregoing provisions of this Section 2.39, in the event an Award issued under the Plan is subject to Section 409A of the Code, then, in lieu of the foregoing definition and to the extent necessary to comply with the requirements of Section 409A of the Code, the definition of “Total and Permanent Disability” for purposes of such Award shall be the definition of “disability” provided for under Section 409A of the Code and the regulations or other guidance issued thereunder.

## Article 3

### ADMINISTRATION

3.1 **General Administration; Establishment of Committee.** Subject to the terms of this Article 3, the Plan shall be administered by the Board or such committee of the Board as is designated by the Board to administer the Plan (the “**Committee**”). The Committee shall consist of not fewer than two persons. Any member of the Committee may be removed at any time, with or without cause, by resolution of the Board. Any vacancy occurring in the membership of the Committee may be filled by appointment by the Board. At any time there is no Committee to administer the Plan, any references in this Plan to the Committee shall be deemed to refer to the Board.

Membership on the Committee shall be limited to those members of the Board who are “outside directors” under Section 162(m) of the Code and “non-employee directors” as defined in Rule 16b-3 promulgated under the Exchange Act. The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

### **3.2 Designation of Participants and Awards.**

(a) The Committee or the Board shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement, where applicable, the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan. The Committee shall determine whether an Award shall include one type of Incentive or two or more Incentives granted in combination or two or more Incentives granted in tandem (that is, a joint grant where exercise of one Incentive results in cancellation of all or a portion of the other Incentive). Although the members of the Committee shall be eligible to receive Awards, all decisions with respect to any Award, and the terms and conditions thereof, to be granted under the Plan to any member of the Committee shall be made solely and exclusively by the other members of the Committee, or if such member is the only member of the Committee, by the Board.

Annex B-5

(b) Notwithstanding Section 3.2(a), to the extent permitted by Applicable Law, the Board may, in its discretion and by a resolution adopted by the Board, authorize one or more officers of the Company (an “**Authorized Officer**”) to (i) designate one or more Employees as eligible persons to whom Awards will be granted under the Plan, and (ii) determine the number of shares of Common Stock that will be subject to such Awards; provided, however, that the resolution of the Board granting such authority shall (x) specify the total number of shares of Common Stock that may be made subject to the Awards, (y) set forth the price or prices (or a formula by which such price or prices may be determined) to be paid for the purchase of the Common Stock subject to such Awards, and (z) not authorize an officer to designate himself as a recipient of any Award.

**3.3 Authority of the Committee.** The Committee, in its discretion, shall (i) interpret the Plan and Award Agreements, (ii) prescribe, amend, and rescind any rules and regulations and sub-plans (including sub-plans for Awards made to Participants who are not resident in the United States), as necessary or appropriate for the administration of the Plan, (iii) establish performance goals for an Award and certify the extent of their achievement, and (iv) make such other determinations or certifications and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties. The Committee’s discretion set forth herein shall not be limited by any provision of the Plan, including any provision which by its terms is applicable notwithstanding any other provision of the Plan to the contrary.

The Committee may delegate to officers of the Company, pursuant to a written delegation, the authority to perform specified functions under the Plan. Any actions taken by any officers of the Company pursuant to such written delegation of authority shall be deemed to have been taken by the Committee.

With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the Exchange Act, Section 422 of the Code, Section 162(m) of the Code, the rules of any exchange or inter-dealer quotation system upon which the Company’s securities are listed or quoted, or any other Applicable Law, to the extent that any such restrictions are no longer required by Applicable Law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

## **Article 4**

### **ELIGIBILITY**

Any Employee (including an Employee who is also a director or an officer), Contractor or Outside Director of the Company whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company is eligible to participate in the Plan; provided that only Employees of a Corporation shall

be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, Contractor or Outside Director. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, Awards need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, Contractors or Outside Directors, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Participants who receive, or are eligible to receive, Awards under the Plan.

## Article 5

### SHARES SUBJECT TO PLAN

**5.1 Number Available for Awards.** Subject to adjustment as provided in Articles 11 and 12, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is five million (5,000,000) shares, of which one hundred percent (100%) may be delivered pursuant to Incentive Stock Options. Subject to adjustment pursuant to Articles 11 and 12, the maximum number of shares of Common Stock with respect to which Stock Options or SARs may be granted to an Executive Officer during any calendar year is one million (1,000,000) shares of Common Stock. Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.

Annex B-6

**5.2 Reuse of Shares.** To the extent that any Award under this Plan shall be forfeited, shall expire or be canceled, in whole or in part, then the number of shares of Common Stock covered by the Award or stock option so forfeited, expired or canceled may again be awarded pursuant to the provisions of this Plan. In the event that previously acquired shares of Common Stock are delivered to the Company in full or partial payment of the exercise price for the exercise of a Stock Option granted under this Plan, the number of shares of Common Stock available for future Awards under this Plan shall be reduced only by the net number of shares of Common Stock issued upon the exercise of the Stock Option. Awards that may be satisfied either by the issuance of shares of Common Stock or by cash or other consideration shall be counted against the maximum number of shares of Common Stock that may be issued under this Plan only during the period that the Award is outstanding or to the extent the Award is ultimately satisfied by the issuance of shares of Common Stock. Awards will not reduce the number of shares of Common Stock that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of shares of Common Stock, as, for example, a SAR that can be satisfied only by the payment of cash. Notwithstanding any provisions of the Plan to the contrary, only shares forfeited back to the Company, shares canceled on account of termination, expiration or lapse of an Award, shares surrendered in payment of the exercise price of an option or shares withheld for payment of applicable employment taxes and/or withholding obligations resulting from the exercise of an option shall again be available for grant of Incentive Stock Options under the Plan, but shall not increase the maximum number of shares described in Section 5.1 above as the maximum number of shares of Common Stock that may be delivered pursuant to Incentive Stock Options.

## Article 6

### GRANT OF AWARDS

#### 6.1 In General.

(a) The grant of an Award shall be authorized by the Committee and shall be evidenced by an Award Agreement setting forth the Incentive or Incentives being granted, the total number of shares of Common Stock subject to the Incentive(s), the Option Price (if applicable), the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but (i) not inconsistent with the Plan, (ii) to the extent an Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder, and (iii) to the extent the Committee determines that an Award shall comply with the requirements of Section 162(m) of the Code, in compliance with the applicable requirements of Section 162(m) of the Code and the regulations and other guidance issued thereunder. The Company shall execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted within ten (10) years of the date of adoption of this Plan by the Board. The Plan shall be submitted to the Company's stockholders for approval; however, the Committee may grant Awards under the Plan prior to the time of stockholder approval. Any such Award granted prior to such stockholder approval shall be made subject to such stockholder approval. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

(b) If the Committee establishes a purchase price for an Award, the Participant must accept such Award within a period of thirty (30) days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Award Agreement and paying such purchase price.

(c) Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

**6.2 Option Price.** The Option Price for any share of Common Stock which may be purchased under a Nonqualified Stock Option for any share of Common Stock may be equal to or greater than the Fair Market Value of the share on the Date of Grant. The Option Price for any share of Common Stock which may be purchased under an Incentive Stock Option must be at least equal to the Fair Market Value of the share on the Date of Grant; if an Incentive Stock Option is granted to an Employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary), the Option Price shall be at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the Date of Grant.

Annex B-7



**6.3 Maximum ISO Grants.** The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries) are exercisable for the first time by such Employee during any calendar year to exceed \$100,000. To the extent any Stock Option granted under this Plan which is designated as an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option (or any such portion thereof) shall be a Nonqualified Stock Option. In such case, the Committee shall designate which stock will be treated as Incentive Stock Option stock by causing the issuance of a separate stock certificate and identifying such stock as Incentive Stock Option stock on the Company's stock transfer records.

**6.4 Restricted Stock.** If Restricted Stock is granted to or received by a Participant under an Award (including a Stock Option), the Committee shall set forth in the related Award Agreement: (i) the number of shares of Common Stock awarded, (ii) the price, if any, to be paid by the Participant for such Restricted Stock and the method of payment of the price, (iii) the time or times within which such Award may be subject to forfeiture, (iv) specified Performance Goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, which the Committee determines must be met in order to remove any restrictions (including vesting) on such Award, and (v) all other terms, limitations, restrictions, and conditions of the Restricted Stock, which shall be consistent with this Plan, to the extent applicable and in the event the Committee determines that an Award shall comply with the requirements of Section 162(m) of the Code, in compliance with the requirements of Section 162(m) of the Code and the regulations and other guidance issued thereunder and, to the extent Restricted Stock granted under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. The provisions of Restricted Stock need not be the same with respect to each Participant.

(a) **Legend on Shares.** The Company shall electronically register the Restricted Stock awarded to a Participant in the name of such Participant, which shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 15.10 of the Plan. No stock certificate or certificates shall be issued with respect to such shares of Common Stock, unless, following the expiration of the Restriction Period (as defined in Section 6.4(b)(i)(a)(i)) without forfeiture in respect of such shares of Common Stock, the Participant requests delivery of the certificate or certificates by submitting a written request to the Committee (or such party designated by the Company) requesting delivery of the certificates. The Company shall deliver the certificates requested by the Participant to the Participant as soon as administratively practicable following the Company's receipt of such request.

(b) **Restrictions and Conditions.** Shares of Restricted Stock shall be subject to the following restrictions and conditions:

(i) Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant or the date of exercise of an Award (the

“**Restriction Period**”), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock. Except for these limitations, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock whenever it may determine that, by reason of changes in Applicable Laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

(ii) Except as provided in sub-paragraph (i) above or in the applicable Award Agreement, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon. Certificates for shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock or after any other restrictions imposed on such shares of Common Stock by the applicable Award Agreement or other agreement have expired. Certificates for the shares of Common Stock forfeited under the provisions of the Plan and the applicable Award Agreement shall be promptly returned to the Company by the forfeiting Participant. Each Award Agreement shall require that each Participant, in connection with the issuance of a certificate for Restricted Stock, shall endorse such certificate in blank or execute a stock power in form satisfactory to the Company in blank and deliver such certificate and executed stock power to the Company.

Annex B-8

(iii) The Restriction Period of Restricted Stock shall commence on the Date of Grant or the date of exercise of an Award, as specified in the Award Agreement, and, subject to Article 12 of the Plan, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock, shall expire upon satisfaction of the conditions set forth in the Award Agreement; such conditions may provide for vesting based on such Performance Goals, as may be determined by the Committee in its sole discretion.

(iv) Except as otherwise provided in the particular Award Agreement, upon Termination of Service for any reason during the Restriction Period, the nonvested shares of Restricted Stock shall be forfeited by the Participant. In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock, the Committee shall specify in the Award Agreement that either (i) the Company shall be obligated to, or (ii) the Company may, in its sole discretion, elect to, pay to the Participant, as soon as practicable after the event causing forfeiture, in cash, an amount equal to the lesser of the total consideration paid by the Participant for such forfeited shares or the Fair Market Value of such forfeited shares as of the date of Termination of Service, as the Committee, in its sole discretion shall select. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of the Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

**6.5 SARs.** The Committee may grant SARs to any Participant, either as a separate Award or in connection with a Stock Option. SARs shall be subject to such terms and conditions as the Committee shall impose, provided that such terms and conditions are (i) not inconsistent with the Plan, (ii) to the extent a SAR issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder, and (iii) to the extent the Committee determines that a SAR shall comply with the requirements of Section 162(m) of the Code, in compliance with the applicable requirements of Section 162(m) and the regulations and other guidance issued thereunder. The grant of the SAR may provide that the holder may be paid for the value of the SAR either in cash or in shares of Common Stock, or a combination thereof. In the event of the exercise of a SAR payable in shares of Common Stock, the holder of the SAR shall receive that number of whole shares of Common Stock having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) the difference between the Fair Market Value of a share of Common Stock on the date of exercise over the SAR Price as set forth in such SAR (or other value specified in the agreement granting the SAR), by (ii) the number of shares of Common Stock as to which the SAR is exercised, with a cash settlement to be made for any fractional shares of Common Stock. The SAR Price for any share of Common Stock subject to a SAR may be equal to or greater than the Fair Market Value of the share on the Date of Grant. The Committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a SAR, but any such limitation shall be specified at the time that the SAR is granted.

**6.6 Restricted Stock Units.** Restricted Stock Units may be awarded or sold to any Participant under such terms and conditions as shall be established by the Committee, provided, however, that such terms and conditions are (i) not inconsistent with the Plan, (ii) to the extent a Restricted Stock Unit issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder, and (iii) to the extent the Committee determines that a Restricted Stock Unit award shall comply with the requirements of Section 162(m) of the Code, in compliance with the applicable requirements of Section 162(m) and the regulations and other guidance issued thereunder. Restricted Stock Units shall be subject to

such restrictions as the Committee determines, including, without limitation, (a) a prohibition against sale, assignment, transfer, pledge, hypothecation or other encumbrance for a specified period; or (b) a requirement that the holder forfeit (or in the case of shares of Common Stock or units sold to the Participant, resell to the Company at cost) such shares or units in the event of Termination of Service during the period of restriction.

#### **6.7 Performance Awards.**

(a) The Committee may grant Performance Awards to one or more Participants. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the Performance Goals to be achieved during a performance period, and the maximum or minimum settlement values, provided that such terms and conditions are (i) not inconsistent with the Plan and (ii) to the extent a Performance Award issued under the Plan is subject to Section 409A of the Code, in compliance with the applicable requirements of Section 409A of the Code and the regulations or other guidance issued thereunder. If the Performance Award is to be in shares of Common Stock, the Performance Awards may provide for the issuance of the shares of Common Stock at the time of the grant of the Performance Award or at the time of the certification by the Committee that the Performance Goals for the performance period have been met; provided, however, if shares of Common Stock are issued at the time of the grant of the Performance Award and if, at the end of the performance period, the Performance Goals are not certified by the Committee to have been fully satisfied, then, notwithstanding any other provisions of this Plan to the contrary, the Common Stock shall be forfeited in accordance with the terms of the grant to the extent the Committee determines that the Performance Goals were not met. The forfeiture of shares of Common Stock issued at the time of the grant of the Performance Award due to failure to achieve the established Performance Goals shall be separate from and in addition to any other restrictions provided for in this Plan that may be applicable to such shares of Common Stock. Each Performance Award granted to one or more Participants shall have its own terms and conditions.

Annex B-9

To the extent the Committee determines that a Performance Award shall comply with the requirements of Section 162(m) of the Code and the regulations and other guidance issued thereunder, and if it is determined to be necessary in order to satisfy Section 162(m) of the Code, at the time of the grant of a Performance Award (other than a Stock Option) and to the extent permitted under Section 162(m) of the Code and the regulations issued thereunder, the Committee shall provide for the manner in which the Performance Goals shall be reduced to take into account the negative effect on the achievement of specified levels of the Performance Goals which may result from enumerated corporate transactions, extraordinary events, accounting changes and other similar occurrences which were unanticipated at the time the Performance Goal was initially established. In no event, however, may the Committee increase the amount earned under such a Performance Award, unless the reduction in the Performance Goals would reduce or eliminate the amount to be earned under the Performance Award and the Committee determines not to make such reduction or elimination.

With respect to a Performance Award that is not intended to satisfy the requirements of Code Section 162(m), if the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure, or for other reasons that the Committee deemed satisfactory, the Committee may modify the performance measures or objectives and/or the performance period.

(b) Performance Awards may be valued by reference to the Fair Market Value of a share of Common Stock or according to any formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of Performance Goals or other specific financial, production, sales or cost performance objectives that the Committee believes to be relevant to the Company's business and/or remaining in the employ of the Company or a Subsidiary for a specified period of time. Performance Awards may be paid in cash, shares of Common Stock, or other consideration, or any combination thereof. If payable in shares of Common Stock, the consideration for the issuance of such shares may be the achievement of the performance objective established at the time of the grant of the Performance Award. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee.

(c) Notwithstanding the foregoing, in order to comply with the requirements of Section 162(m) of the Code, if applicable, no Participant may receive in any calendar year Performance Awards intended to comply with the requirements of Section 162(m) of the Code which have an aggregate value of more than \$5,000,000, and if such Performance Awards involve the issuance of shares of Common Stock, said aggregate value shall be based on the Fair Market Value of such shares on the time of the grant of the Performance Award. In no event, however, shall any Performance Awards not intended to comply with the requirements of Section 162(m) of the Code be issued contingent upon the failure to attain the Performance Goals applicable to any Performance Awards granted hereunder that the Committee intends to comply with the requirements of Section 162(m) of the Code.

**6.8 Dividend Equivalent Rights.** The Committee may grant a Dividend Equivalent Right to any Participant, either as a component of another Award or as a separate Award. The terms and conditions of the Dividend Equivalent Right shall be specified by the grant. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Common Stock (which may thereafter accrue additional dividend equivalents). Any such reinvestment shall be at the Fair Market Value at the time thereof. Dividend Equivalent Rights may be settled in cash or shares of Common Stock, or a combination thereof, in a single payment or in installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other Award.

**6.9 Other Awards.** The Committee may grant to any Participant other forms of Awards, based upon, payable in, or otherwise related to, in whole or in part, shares of Common Stock, if the Committee determines that such other form of Award is consistent with the purpose and restrictions of this Plan. The terms and conditions of such other form of Award shall be specified by the grant. Such Other Awards may be granted for no cash consideration, for such minimum consideration as may be required by Applicable Law, or for such other consideration as may be specified by the grant.

**6.10 Performance Goals.** Awards of Restricted Stock, Restricted Stock Units, Performance Award and Other Awards (whether relating to cash or shares of Common Stock) under the Plan may be made subject to the attainment of Performance Goals relating to one or more business criteria which, where applicable, shall be within the meaning of Section 162(m) of the Code and consist of one or more or any combination of the following criteria: cash flow; cost; revenues; sales; ratio of debt to debt plus equity; net borrowing, credit quality or debt ratings; profit before tax; economic profit; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; gross margin; earnings per share (whether on a pre-tax, after-tax, operational or other basis); operating earnings; capital expenditures; expenses or expense levels; economic value added; ratio of operating earnings to capital spending or any other operating ratios; free cash flow; net profit; net sales; net asset value per share; the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions; sales growth; price of the Company's Common Stock; return on assets, equity or stockholders' equity; market share; inventory levels, inventory turn or shrinkage; or total return to stockholders ("**Performance Criteria**"). Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (i) extraordinary, unusual and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, (iv) the effect of a merger or acquisition, as identified in the Company's quarterly and annual earnings releases, or (v) other similar occurrences. In all other respects, Performance Criteria shall be calculated in accordance with the Company's financial statements, under generally accepted accounting principles, or under a methodology established by the Committee prior to the issuance of an Award which is consistently applied and identified in the audited financial statements, including footnotes, or the Compensation Discussion and Analysis section of the Company's annual report. However, to the extent Section 162(m) of the Code is applicable, the Committee may not in any event increase the amount of compensation payable to an individual upon the attainment of a Performance Goal.

**6.11 Tandem Awards.** The Committee may grant two or more Incentives in one Award in the form of a “tandem Award,” so that the right of the Participant to exercise one Incentive shall be canceled if, and to the extent, the other Incentive is exercised. For example, if a Stock Option and a SAR are issued in a tandem Award, and the Participant exercises the SAR with respect to one hundred (100) shares of Common Stock, the right of the Participant to exercise the related Stock Option shall be canceled to the extent of one hundred (100) shares of Common Stock.

## Article 7

### AWARD PERIOD; VESTING

**7.1 Award Period.** Subject to the other provisions of this Plan, the Committee may, in its discretion, provide that an Incentive may not be exercised in whole or in part for any period or periods of time or beyond any date specified in the Award Agreement. Except as provided in the Award Agreement, an Incentive may be exercised in whole or in part at any time during its term. The Award Period for an Incentive shall be reduced or terminated upon Termination of Service. No Incentive granted under the Plan may be exercised at any time after the end of its Award Period. No portion of any Incentive may be exercised after the expiration of ten (10) years from its Date of Grant. However, if an Employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary) and an Incentive Stock Option is granted to such Employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five (5) years from the Date of Grant.

Annex B-11

**7.2 Vesting.** The Committee, in its sole discretion, may determine that an Incentive will be immediately vested in whole or in part, or that all or any portion may not be vested until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If the Committee imposes conditions upon vesting, then, subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Incentive may be vested.

## Article 8

### EXERCISE OR CONVERSION OF INCENTIVE

**8.1 In General.** A vested Incentive may be exercised or converted, during its Award Period, subject to limitations and restrictions set forth in the Award Agreement.

**8.2 Securities Law and Exchange Restrictions.** In no event may an Incentive be exercised or shares of Common Stock issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished.

### 8.3 Exercise of Stock Option.

(a) **In General.** If a Stock Option is exercisable prior to the time it is vested, the Common Stock obtained on the exercise of the Stock Option shall be Restricted Stock which is subject to the applicable provisions of the Plan and the Award Agreement. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Stock Option may be exercised. No Stock Option may be exercised for a fractional share of Common Stock. The granting of a Stock Option shall impose no obligation upon the Participant to exercise that Stock Option.

(b) **Notice and Payment.** Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised and the date of exercise thereof (the “*Exercise Date*”) which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as provided in the Award Agreement, which may provide for payment in any one or more of the following ways: (a) cash or check, bank draft, or money order payable to the order of the Company, (b) Common Stock (including Restricted Stock) owned by the Participant on the



Exercise Date, valued at its Fair Market Value on the Exercise Date, and which the Participant has not acquired from the Company within six (6) months prior to the Exercise Date, (c) by delivery (including by FAX) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Committee in its sole discretion. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of the Stock Option equal to the number of shares of Restricted Stock used as consideration therefor shall be subject to the same restrictions and provisions as the Restricted Stock so tendered.

(c) **Issuance of Certificate.** Except as otherwise provided in Section 6.4 hereof (with respect to shares of Restricted Stock) or in the applicable Award Agreement, upon payment of all amounts due from the Participant, the Company shall cause the Common Stock then being purchased to be registered in the Participant's name (or the person exercising the Participant's Stock Option in the event of his or her death), but shall not issue certificates for the Common Stock unless the Participant or such other person requests delivery of the certificates for the Common Stock, in writing in accordance with the procedures established by the Committee. The Company shall deliver certificates to the Participant (or the person exercising the Participant's Stock Option in the event of his or her death) as soon as administratively practicable following the Company's receipt of a written request from the Participant or such other person for delivery of the certificates. Notwithstanding the forgoing, if the Participant has exercised an Incentive Stock Option, the Company may at its option retain physical possession of the certificate evidencing the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. Any obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that, if at any time the Committee shall determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Committee.

(d) **Failure to Pay.** Except as may otherwise be provided in an Award Agreement, if the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, that portion of the Participant's Stock Option and right to purchase such Common Stock may be forfeited by the Participant.

**8.4 SARs.** Subject to the conditions of this Section 8.4 and such administrative regulations as the Committee may from time to time adopt, a SAR may be exercised by the delivery (including by FAX) of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the SAR is to be exercised and the date of exercise thereof (the "**Exercise Date**") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. Subject to the terms of the Award Agreement and only if permissible under Section 409A of the Code and the regulations or other guidance issued thereunder (or, if not so permissible, at such time as permitted by Section 409A of the Code and the regulations or other guidance issued thereunder), the Participant shall receive from the Company in exchange therefor in the discretion of the Committee, and subject to the terms of the Award Agreement:

(a) cash in an amount equal to the excess (if any) of the Fair Market Value (as of the Exercise Date, or if provided in the Award Agreement, conversion, of the SAR) per share of Common Stock over the SAR Price per share specified in such SAR, multiplied by the total number of shares of Common Stock of the SAR being surrendered;

(b) that number of shares of Common Stock having an aggregate Fair Market Value (as of the Exercise Date, or if provided in the Award Agreement, conversion, of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests; or

(c) the Company may settle such obligation in part with shares of Common Stock and in part with cash.

The distribution of any cash or Common Stock pursuant to the foregoing sentence shall be made at such time as set forth in the Award Agreement.

**8.5 Disqualifying Disposition of Incentive Stock Option.** If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

## Article 9

### AMENDMENT OR DISCONTINUANCE

Subject to the limitations set forth in this Article 9, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment for which stockholder approval is required either (i) by any securities exchange or inter-dealer quotation system on which the Common Stock is listed or traded or (ii) in order for the Plan and Incentives awarded under the Plan to continue to comply with Sections 162(m), 421, and 422 of the Code, including any successors to such Sections, or other Applicable Law, shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. Notwithstanding anything contained in this Plan to the contrary, unless required by law, no action contemplated or permitted by this Article 9 shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

Annex B-13

## Article 10

### TERM

The Plan shall be effective from the date that this Plan is adopted by the Board. Unless sooner terminated by action of the Board, the Plan will terminate on October 25, 2023, but Incentives granted before that date will continue to be effective in accordance with their terms and conditions.

## Article 11

### CAPITAL ADJUSTMENTS

In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the fair value of an Award, then the Committee shall adjust any or all of the following so that the fair value of the Award immediately after the transaction or event is equal to the fair value of the Award immediately prior to the transaction or event (i) the number of shares and type of Common Stock (or the securities or property) which thereafter may be made the subject of Awards, (ii) the number of shares and type of Common Stock (or other securities or property) subject to outstanding Awards, (iii) the number of shares and type of Common Stock (or other securities or property) specified as the annual per-participant limitation under Section 5.1 of the Plan, (iv) the Option Price of each outstanding Award, (v) the amount, if any, the Company pays for forfeited shares of Common Stock in accordance with Section 6.4, and (vi) the number of or SAR Price of shares of Common Stock then subject to outstanding SARs previously granted and unexercised under the Plan, to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each instance shall remain subject to exercise at the same aggregate SAR Price; provided however, that the number of shares of Common Stock (or other securities or property) subject to any Award shall always be a whole number. Notwithstanding the foregoing, no such adjustment shall be made or authorized to the extent that such adjustment would cause the Plan or any Stock Option to violate Section 422 of the Code or Section 409A of the Code. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Upon the occurrence of any such adjustment, the Company shall provide notice to each affected Participant of its computation of such adjustment which shall be conclusive and shall be binding upon each such Participant.

## Article 12

**RECAPITALIZATION, MERGER AND CONSOLIDATION**

**12.1 No Effect on Company's Authority.** The existence of this Plan and Incentives granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure and its business, or any Change in Control, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

Annex B-14

**12.2 Conversion of Incentives Where Company Survives.** Subject to any required action by the stockholders and except as otherwise provided by Section 12.4 hereof or as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, if the Company shall be the surviving or resulting corporation in any merger, consolidation or share exchange, any Incentive granted hereunder shall pertain to and apply to the securities or rights (including cash, property, or assets) to which a holder of the number of shares of Common Stock subject to the Incentive would have been entitled.

**12.3 Exchange or Cancellation of Incentives Where Company Does Not Survive.** Except as otherwise provided by Section 12.4 hereof or as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, in the event of any merger, consolidation or share exchange pursuant to which the Company is not the surviving or resulting corporation, there shall be substituted for each share of Common Stock subject to the unexercised portions of outstanding Incentives, that number of shares of each class of stock or other securities or that amount of cash, property, or assets of the surviving, resulting or consolidated company which were distributed or distributable to the stockholders of the Company in respect to each share of Common Stock held by them, such outstanding Incentives to be thereafter exercisable for such stock, securities, cash, or property in accordance with their terms.

**12.4 Cancellation of Incentives.** Notwithstanding the provisions of Sections 12.2 and 12.3 hereof, and except as may be required to comply with Section 409A of the Code and the regulations or other guidance issued thereunder, all Incentives granted hereunder may be canceled by the Company, in its sole discretion, as of the effective date of any Change in Control, merger, consolidation or share exchange, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the Common Stock or the rights thereof (or any rights, options, or warrants to purchase same), or of any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, by either:

(a) giving notice to each holder thereof or his personal representative of its intention to cancel those Incentives for which the issuance of shares of Common Stock involved payment by the Participant for such shares, and permitting the purchase during the thirty (30) day period next preceding such effective date of any or all of the shares of Common Stock subject to such outstanding Incentives, including in the Board's discretion some or all of the shares as to which such Incentives would not otherwise be vested and exercisable; or

(b) in the case of Incentives that are either (i) settled only in shares of Common Stock, or (ii) at the election of the Participant, settled in shares of Common Stock, paying the holder thereof an amount equal to a reasonable estimate of the difference between the net amount per share payable in such transaction or as a result of such transaction, and the price per share of such Incentive to be paid by the Participant (hereinafter the "*Spread*"), multiplied by the number of shares subject to the Incentive. In cases where the shares constitute, or would after exercise, constitute Restricted Stock, the Company, in its discretion, may include some or all of those shares in the calculation of the amount payable hereunder. In estimating the Spread, appropriate adjustments to give effect to the existence of the Incentives shall be made, such as deeming the Incentives to have been exercised, with the Company receiving the exercise price payable

thereunder, and treating the shares receivable upon exercise of the Incentives as being outstanding in determining the net amount per share. In cases where the proposed transaction consists of the acquisition of assets of the Company, the net amount per share shall be calculated on the basis of the net amount receivable with respect to shares of Common Stock upon a distribution and liquidation by the Company after giving effect to expenses and charges, including but not limited to taxes, payable by the Company before such liquidation could be completed.

(c) An Award that by its terms would be fully vested or exercisable upon a Change in Control will be considered vested or exercisable for purposes of Section 12.4(a) hereof.

### **Article 13**

#### **LIQUIDATION OR DISSOLUTION**

Subject to Section 12.4 hereof, in case the Company shall, at any time while any Incentive under this Plan shall be in force and remain unexpired, (i) sell all or substantially all of its property, or (ii) dissolve, liquidate, or wind up its affairs, then each Participant shall be entitled to receive, in lieu of each share of Common Stock of the Company which such Participant would have been entitled to receive under the Incentive, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidation, or winding up with respect to each share of Common Stock of the Company. If the Company shall, at any time prior to the expiration of any Incentive, make any partial distribution of its assets, in the nature of a partial liquidation, whether payable in cash or in kind (but excluding the distribution of a cash dividend payable out of earned surplus and designated as such) and an adjustment is determined by the Committee to be appropriate to prevent the dilution of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, make such adjustment in accordance with the provisions of Article 11 hereof.

Annex B-15

## Article 14

### INCENTIVES IN SUBSTITUTION FOR INCENTIVES GRANTED BY OTHER ENTITIES

Incentives may be granted under the Plan from time to time in substitution for similar instruments held by employees, independent contractors or directors of a corporation, partnership, or limited liability company who become or are about to become Employees, Contractors or Outside Directors of the Company or any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company, the acquisition by the Company of equity of the employing entity, or any other similar transaction pursuant to which the Company becomes the successor employer. The terms and conditions of the substitute Incentives so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the Incentives in substitution for which they are granted.

## Article 15

### MISCELLANEOUS PROVISIONS

15.1 **Investment Intent.** The Company may require that there be presented to and filed with it by any Participant under the Plan, such evidence as it may deem necessary to establish that the Incentives granted or the shares of Common Stock to be purchased or transferred are being acquired for investment and not with a view to their distribution.

15.2 **No Right to Continued Employment.** Neither the Plan nor any Incentive granted under the Plan shall confer upon any Participant any right with respect to continuance of employment by the Company or any Subsidiary.

15.3 **Indemnification of Board and Committee.** No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board and the Committee, each officer of the Company, and each Employee of the Company acting on behalf of the Board or the Committee shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.



**15.4 Effect of the Plan.** Neither the adoption of this Plan nor any action of the Board or the Committee shall be deemed to give any person any right to be granted an Award or any other rights except as may be evidenced by an Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and upon the terms and conditions expressly set forth therein.

**15.5 Compliance With Other Laws and Regulations.** Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Incentive if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the Exchange Act and Section 162(m) of the Code); and, as a condition of any sale or issuance of shares of Common Stock under an Incentive, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of Incentives hereunder, and the obligation of the Company to sell and deliver shares of Common Stock, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

Annex B-16

**15.6 Foreign Participation.** To assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Committee approves for purposes of using this Plan in a foreign country will not affect the terms of this Plan for any other country.

**15.7 Tax Requirements.** The Company or, if applicable, any Subsidiary (for purposes of this Section 15.7, the term “*Company*” shall be deemed to include any applicable Subsidiary), shall have the right to deduct from all amounts paid in cash or other form in connection with the Plan, any Federal, state, local, or other taxes required by law to be withheld in connection with an Award granted under this Plan. The Company may, in its sole discretion, also require the Participant receiving shares of Common Stock issued under the Plan to pay the Company the amount of any taxes that the Company is required to withhold in connection with the Participant’s income arising with respect to the Award. Such payments shall be required to be made when requested by Company and may be required to be made prior to the delivery of any certificate representing shares of Common Stock. Such payment may be made (i) by the delivery of cash to the Company in an amount that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding obligations of the Company; (ii) if the Company, in its sole discretion, so consents in writing, the actual delivery by the exercising Participant to the Company of shares of Common Stock that the Participant has not acquired from the Company within six (6) months prior to the date of exercise, which shares so delivered have an aggregate Fair Market Value that equals or exceeds (to avoid the issuance of fractional shares under (iii) below) the required tax withholding payment; (iii) if the Company, in its sole discretion, so consents in writing, the Company’s withholding of a number of shares to be delivered upon the exercise of the Stock Option, which shares so withheld have an aggregate fair market value that equals (but does not exceed) the required tax withholding payment; or (iv) any combination of (i), (ii), or (iii). The Company may, in its sole discretion, withhold any such taxes from any other cash remuneration otherwise paid by the Company to the Participant. The Committee may in the Award Agreement impose any additional tax requirements or provisions that the Committee deems necessary or desirable.

**15.8 Assignability.** Incentive Stock Options may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant’s legally authorized representative, and each Award Agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 15.8 that is not required for compliance with Section 422 of the Code.

Except as otherwise provided herein, Nonqualified Stock Options and SARs may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution. The Committee may, in its discretion, authorize all or a portion of a Nonqualified Stock Option or SAR to be granted to a Participant on terms which permit transfer by such Participant to (i) the spouse (or former spouse), children or grandchildren of the Participant (“*Immediate Family Members*”), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, (iii) a partnership in which the only partners are (1) such Immediate

Family Members and/or (2) entities which are controlled by Immediate Family Members, (iv) an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (x) there shall be no consideration for any such transfer, (y) the Award Agreement pursuant to which such Nonqualified Stock Option or SAR is granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section, and (z) subsequent transfers of transferred Nonqualified Stock Options or SARs shall be prohibited except those by will or the laws of descent and distribution.

Following any transfer, any such Nonqualified Stock Option and SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Articles 8, 9, 11, 13 and 15 hereof the term “*Participant*” shall be deemed to include the transferee. The events of Termination of Service shall continue to be applied with respect to the original Participant, following which the Nonqualified Stock Options and SARs shall be exercisable or convertible by the transferee only to the extent and for the periods specified in the Award Agreement. The Committee and the Company shall have no obligation to inform any transferee of a Nonqualified Stock Option or SAR of any expiration, termination, lapse or acceleration of such Stock Option or SAR. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Nonqualified Stock Option or SAR that has been transferred by a Participant under this Section 15.8.

Annex B-17

**15.9 Use of Proceeds.** Proceeds from the sale of shares of Common Stock pursuant to Incentives granted under this Plan shall constitute general funds of the Company.

**15.10 Legend.** Each certificate representing shares of Restricted Stock issued to a Participant shall bear the following legend, or a similar legend deemed by the Company to constitute an appropriate notice of the provisions hereof (any such certificate not having such legend shall be surrendered upon demand by the Company and so endorsed):

On the face of the certificate:

“Transfer of this stock is restricted in accordance with conditions printed on the reverse of this certificate.”

On the reverse:

“The shares of stock evidenced by this certificate are subject to and transferable only in accordance with that certain InspireMD, Inc. 2013 Long-Term Incentive Plan, a copy of which is on file at the principal office of the Company in Boston, Massachusetts. No transfer or pledge of the shares evidenced hereby may be made except in accordance with and subject to the provisions of said Plan. By acceptance of this certificate, any holder, transferee or pledgee hereof agrees to be bound by all of the provisions of said Plan.”

The following legend shall be inserted on a certificate evidencing Common Stock issued under the Plan if the shares were not issued in a transaction registered under the applicable federal and state securities laws:

“Shares of stock represented by this certificate have been acquired by the holder for investment and not for resale, transfer or distribution, have been issued pursuant to exemptions from the registration requirements of applicable state and federal securities laws, and may not be offered for sale, sold or transferred other than pursuant to effective registration under such laws, or in transactions otherwise in compliance with such laws, and upon evidence satisfactory to the Company of compliance with such laws, as to which the Company may rely upon an opinion of counsel satisfactory to the Company.”

## Article 16

## ACCELERATION OF AWARD VESTING

16.1 **Application.** The provisions of this Article 16 shall apply notwithstanding any provisions of this Plan to the contrary.

### 16.2 Definitions.

(a) “*Exempt Shares*” means shares of Common Stock designated as “Exempt Shares” pursuant to Section 16.3.

(b) “*Full Value Award*” means any Award with a net benefit to the Participant, without regard to any restrictions such as those described in Section 6.4(b), equal to the aggregate Fair Market Value of the total shares of Common Stock subject to the Award. Full Value Awards include Restricted Stock and Restricted Stock Units, but do not include Stock Options and SARs.

(c) “*Tenure Award*” means an Award hereunder of cash, shares of Common Stock, units or rights based upon, payable in, or otherwise related to, Common Stock that vests over time based upon the Participant’s continued employment with or service to the Company or its Subsidiaries.

Annex B-18

**16.3 Number of Shares Available for Awards.** No more than ten percent (10%) of the shares of Common Stock that may be delivered pursuant to Awards under Section 5.1 may be shares designated as “Exempt Shares.”

**16.4 Full Value Award Vesting.** Except as otherwise provided herein, the Committee must grant all Full Value Awards in accordance with the following provisions:

(a) All Full Value Awards granted by the Committee that constitute Performance Awards must vest no earlier than one (1) year after the Date of Grant.

(b) All Full Value Awards granted by the Committee that constitute Tenure Awards must vest no earlier than over the three (3) year period commencing on the Date of Grant on a pro rata basis.

(c) The Committee may not accelerate the date on which all or any portion of a Full Value Award may be vested or waive the Restriction Period on a Full Value Award except upon the Participant’s death, Total and Permanent Disability or Retirement or the occurrence of a Change in Control.

Notwithstanding the foregoing, the Committee may, in its sole discretion, grant Full Value Awards with more favorable vesting provisions than set forth in this Section 16.4 or accelerate the vesting or waive the Restriction Period for Full Value Awards at any time, provided that the shares of Common Stock subject to such Awards shall be Exempt Shares.

A copy of this Plan shall be kept on file in the principal office of the Company in Boston, Massachusetts.

\*\*\*\*\*

Annex B-19

IN WITNESS WHEREOF, the Company has caused this instrument to be executed as of October 25, 2013, by its Chief Executive Officer and Secretary pursuant to prior action taken by the Board.

**INSPIREMD, INC.**

By: */s/ Alan Milinazzo*

Name: Alan Milinazzo

Title: Chief Executive Officer

Attest:

By: */s/ Craig Shore*

Name: Craig Shore

Title: Secretary

Annex B-20

**APPENDIX A**

**INSPIREMD, INC.**

**2013 Employee Stock Incentive Plan**

**Designated for the Israeli Income Tax Ordinance**

**ARTICLE I**

**Purpose**

The purpose of this 2013 Employee Stock Incentive Plan (the “*Israeli Plan*”) shall be as defined in the InspireMD, Inc. 2013 Long-Term Incentive Plan (the “*Incentive Plan*”), and is intended to harmonize the terms and conditions of the Incentive Plan with applicable Israeli law and provide specific provisions regarding Participants (as defined in the Incentive Plan) who are subject to the Ordinance (as defined below). Unless expressly provided in this Israeli Plan, the provisions of the Incentive Plan shall apply. Capitalized terms not expressly defined in this Israeli Plan shall have the meaning ascribed to them under the Incentive Plan.

This Israeli Plan is intended to promote the interests of InspireMD, Inc. (the “*Company*”) and its Affiliates, if any, (the “*Group Companies*”) by providing present and future officers of the Group Companies, other employees of the Group Companies (including directors of the Group Companies) and consultants of the Group Companies with an incentive to enter into and continue in the employ of the Group Companies and to acquire a proprietary interest in the long-term success of the Group Companies.

The word “*Affiliate*”, when used in the Israeli Plan, shall mean any “employer company” within the meaning of Section 102(a) of the Israeli Income Tax Ordinance (New Version), 5721-1961 (the “*Ordinance*”).

<sup>1</sup> s. 102 (a) of the Ordinance: “*employer company*” – any of the following: (1) an employer that is an Israeli resident company or a foreign resident company with a permanent enterprise or a research and development center in Israel, if the Commissioner so approved (for this purpose: the employer), (2) a company that is a controlling member of the employer or of which the employer is a controlling member, or (3) a company controlled by a person if the same person controls the employer.



## ARTICLE II

### Administration

The Israeli Plan shall be administered by the Board or the Committee (the “*Administrator*”) as shall be resolved by the Board. The Administrator shall have the authority in its sole discretion, subject and not inconsistent with the express provisions of the Israeli Plan, to administer the Israeli Plan and to exercise all the powers and authorities specifically granted to it under the Israeli Plan as necessary and advisable in the administration of the Israeli Plan, including, without limitation:

To determine which of the eligible, officers, employees, directors, and consultants of the Group Companies or other person shall be granted options to purchase Common Stock (each an “*Option*”), as that term is defined below, or other Awards, provided however, that (a) employees, officers and directors (excluding controlling members as defined in Section 32(9) of the Ordinance<sup>2</sup>) (“*Employees*”, and each an “*Employee*”) may only be granted Awards, a. pursuant to Section 102 of the Ordinance and the rules and regulations promulgated thereunder, including the Income Tax Regulations (Tax Relief for Issue of Shares to Employees), 5763 -2003, (“*Section 102 Incentives*”); and (b) those who have no employee/employer relationship with the Group Companies and are not ‘office holders’ (such as consultants and service providers), and Controlling Members (“*Consultants*”, and each a “*Consultant*”), may only be granted Incentives pursuant to Section 3(i) of the Ordinance (“*Section 3(i) Incentives*”);

Annex B-21

- b. To determine the type of Incentives to be granted, *i.e.* Section 102 Incentives or Section 3(i) Incentives, or any other type of Incentive provided in Section 6 of the Incentive Plan, and their Date of Grant;

- c. To determine the number of shares of Common Stock, to which an Incentive may relate, the terms, conditions and restrictions of each Award and Incentive, the exercise price of each Option (the “*Option Exercise Price*”), the date on which each Option or other Incentives becomes exercisable or free of any restrictions (the “*Exercise Date*”), the Award Period and any other restrictions on (i) the exercise of Options issued hereunder, or (ii) other Incentives;

- d. To determine the form or forms of the award agreements under the Israeli Plan (the “*Award Agreement*”) (which forms shall be consistent with the terms of the Incentive Plan but need not be identical), any other instruments that constitute or contain a Company obligation to grant an Incentive under the Israeli Plan (each, a “*Grant Instrument*”), as that term is defined below, and ancillary documentation;

- e. To determine whether, to what extent, and under what circumstances, an Incentive may be settled, canceled, forfeited, exchanged or surrendered;

- f. To construe and interpret the Israeli Plan, Award Agreements, any Incentive, Grant Instruments and ancillary documentation and to make all other determinations deemed necessary or advisable for the administration of the Israeli Plan; and

- g. To prescribe, amend and rescind rules and regulations relating to the Israeli Plan.

5. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Participants, unless otherwise determined by the Board of Directors.

<sup>2</sup> s. 32(9) of the Ordinance: “*controlling member*” – a person who holds, directly or indirectly, alone or with a relative, one of the following: (a) at least 10% of the issued share capital or at least 10% of the voting power; the right to hold at least 10% of the issued share capital or at least 10% of the voting power, or a right to acquire either; (c) the right to receive at least 10% of the profits; (d) the right to appoint a director.

6. Insofar as the Board is entitled by law to delegate all and any of its powers and authority granted it under this Israeli Plan to a Committee, the Board shall be entitled to do so. The Committee’s authorities shall be as provided in the Incentive Plan. Any action may be taken by a written document (in lieu of meeting) signed by the Committee, and action so taken shall be fully as effective as if it had been taken by a vote of the majority of the members at a meeting duly called and held. The Committee may appoint a Secretary who shall keep records of its meetings, and shall make such rules and regulations for the conduct of its business as it shall determine.

7. No member or former member of the Administrator shall be liable for any action, failure to act, or determination made in good faith with respect to the Israeli Plan or any right granted thereunder.

- 8.

The Administrator may designate Incentives granted pursuant to Section 102 as (1) “**Approved 102 Incentives**” (i.e. Incentives granted pursuant to Section 102(b) of the Ordinance and held in trust by a trustee for the benefit of the Participant); or (2) “**Unapproved 102 Incentives**” (i.e. Incentives granted pursuant to Section 102(c) of the Ordinance and not held in trust by a trustee).

The Administrator may elect for Approved 102 Incentives to be classified as either (1) “**Work Income Incentives**” that qualify for tax treatment in accordance with the provisions of Section 102(b)(1) of the Ordinance; or (2) “**Capital Gain Incentives**” that qualify for tax treatment in accordance with the provisions of Section 102(b)(2) of the Ordinance (the “**Election**”).

Annex B-22

Unapproved 102 Incentives may be granted until the Administrator's Election has been appropriately filed with the Israeli tax authorities, which election must be made at least thirty days before the date of the first grant of an Approved 102 Incentive under this Israeli Plan or according to the instructions published by the Israeli tax authorities from time to time. The Election shall remain in effect until the end of the subsequent year following the year during which the Administrator first granted such Approved 102 Incentives. During the period indicated in the sentence above, the Administrator may grant only the type of Approved 102 Incentive it has elected, which Election shall apply to all Participants who were granted Approved 102 Incentives during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance, as amended. For the avoidance of doubt, such Election shall not prevent the Administrator from granting, at all times, Unapproved 102 Incentives to Employees or Section 3(i) Incentives to Consultants.

### ARTICLE III

#### Incentive Shares

The shares to be issued under the Israeli Plan (the "*Incentive Shares*") shall be authorized but unissued Common Stock (the "*Shares*"). The total number of Shares reserved for issuance under the Israeli Plan shall be equal to the total number of Shares reserved under Section 5.1 of the Incentive Plan, subject to any adjustments and reductions made pursuant to the Incentive Plan. Such Shares are reserved out of the total number of Shares reserved under Section 5.1 of the Incentive Plan.

The number of Shares available for grant of Incentives under the Israeli Plan shall be decreased by the sum of the number of Shares with respect to which Incentives have been issued and are then outstanding and the number of Shares issued upon exercise of Options. In the event that any outstanding Incentive under the Israeli Plan for any reason expires, is terminated, or is canceled, the Shares covered by the unexercised portion of such Incentive may again be subject to Awards under the Israeli Plan.

The Company shall at all times during the term of the Israeli Plan reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Incentives granted according to this Israeli Plan, shall pay all original issue taxes (which shall not include income taxes of the Participant), if any, with respect to the issuance of Shares pursuant hereto and all other fees and expenses necessarily incurred by the Company in connection therewith, and shall, from time to time, use its best efforts to comply with all laws and regulations which, in the opinion of counsel for the Company, shall be applicable thereto.

### ARTICLE IV

#### Incentive Price

Each Award Agreement and Grant Instrument with respect to an Award shall set forth the amount (the "*Incentive Price*") which will be paid by the Participant to the Company upon exercise of the Options or allocation of other Incentives. Payment shall be made in cash, or by certified check in the manner prescribed in Article VI (Exercise

of Options, Termination) hereof.

## ARTICLE V

### Terms of Awards

15. The Administrator shall determine the dates after which, or circumstances in which, Options may be exercised or other Incentives may be released of any restriction thereto, in whole or in part. If Incentives are exercisable in installments, then the installments or portions thereof which are exercisable and not exercised shall remain exercisable until such Incentives expire or terminate in accordance with the provisions herein.

16. Notwithstanding any other provision of the Israeli Plan but subject to Section 7.1 of the Incentive Plan, no Incentive shall be exercisable or otherwise valid after a date ten years from the date of grant of such Award (the "*Expiration Date*").

17. Unless determined otherwise by the Administrator with regard to all or any of the Participants or the Options and subject to Section 7.2 of the Incentive Plan, the Options will be exercisable into Shares, as follows:

Annex B-23

One fourth (1/4<sup>th</sup>) of the optioned Shares shall vest and that portion of the Option shall become exercisable upon the expiration of twelve (12) months after their Date of Grant (the “*First Vesting Date*”), ~~provided, that~~ the

a. Participant is continuously employed or engaged by a Group Company from the Date of Grant until the end of First Vesting Date;

an additional one fourth (1/4<sup>th</sup>) of the optioned Shares shall vest and that portion of the Option shall become exercisable upon the expiration of twenty four (24) months after their Date of Grant (the “*Second Vesting Date*”),

b. ~~provided, that~~ that the Participant is continuously employed or engaged by a Group Company from the First Vesting Date until the end of Second Vesting Date;

an additional one fourth (1/4<sup>th</sup>) of the optioned Shares shall vest and that portion of the Option shall become exercisable upon the expiration of thirty six (36) months after their Date of Grant the Award (the “*Third Vesting Date*”), ~~provided, that~~ the Participant is continuously employed or engaged by a Group Company from the Second Vesting Date until the end of Third Vesting Date; and

c.

an additional one fourth (1/4<sup>th</sup>) of the optioned Shares shall vest and that portion of the Option shall become exercisable upon the expiration of forty eight (48) months after their Date of Grant (the “*Fourth Vesting Date*”),

d. ~~provided, that~~ the Participant is continuously employed or engaged by a Group Company from the Third Vesting Date until the end of Forth Vesting Date.

## ARTICLE VI

### Exercise of Options, Termination

Subject to Article X (Trustee) below and as more fully provided in Section 8.3 of the Incentive Plan, the exercise of any Option shall be effected by a Participant signing and returning to the Company at its principal office a

18. notice of exercise in the form prescribed from time to time by the Company or the Committee (a “*Notice of Exercise*”), along with payment for the Incentive Shares purchased thereby. Such payment will be made in dollars or shekels in accordance with the terms of the specific Award Agreement.

Subject to Article X (Trustee) below, the Company shall issue Incentive Shares, in the name of the respective Participant, and deliver to him a certificate or certificates, as the case may be, representing such Shares as soon as

19. practicable after a Notice of Exercise and payment for the Shares shall be received. If Article X (Trustee) applies, then exercise of the Incentives will be subject to the agreement with the Trustee, as that term is defined below, and in accordance with Section 102 of the Ordinance.

The Company may, if required under any Applicable Law, require that an Participant deposit with the Company,

20. in cash, at the time of exercise, such amount as the Company deems necessary to satisfy its obligations to withhold taxes or other amounts incurred by reason of the exercise or the transfer of Shares thereupon.

All Shares purchased upon the exercise of an Option or other grant of an Incentive as provided herein shall be

21. fully paid and non-assessable.

22.

In the event that an Option is exercised by any person or persons other than the Participant, pursuant to Article VII (Non-Transferability of Incentive Rights), such Notice of Exercise shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option.

23. If the Participant shall cease to be employed or engaged by a Group Company, as the result of his resignation, then the Participant shall have the right to exercise the Options, but only to the extent that the Options are exercisable as of the date Participant resigns (according to the provisions of Article V (Terms of Awards)), within thirty (30) days as of the Termination Date.

24. If the Participant shall cease to be employed or engaged by a Group Company, as the result of his dismissal without Cause, then the Participant shall have the right to exercise the Options, but only to the extent that the Options are exercisable on the date of Participant's dismissal (according to the provisions of Article V (Terms of Awards)), within sixty (60) days after the Termination Date.

Annex B-24

If the Participant shall cease to be employed or engaged by a Group Company as the result of his disability or retirement with the consent of the Group Company, then the Option, to the extent that it is exercisable by him at 25. the time he ceases to be employed or engaged by the Group Company, and only to the extent that the Option is exercisable as of such time as defined in Article V (Terms of Awards), may be exercised by him within one (1) year, after the Termination Date.

If the Participant shall die while employed or engaged by a Group Company, his estate, personal representative, or 26. beneficiary shall have the right, subject to the provisions of Article V (Terms of Options), to exercise the Option (to the extent that the Participant would have been entitled to do so at the time of his death) at any time within two (2) years from the date of his death.

If the Participants shall be terminated for Cause, then, all Options, whether exercisable or not on the date that the 27. Group Company delivers to the employee a termination notice, will expire and may not be further exercised.

For the purpose of this Israeli Plan, “*Cause*” shall exist if the Participant (i) breaches any of the material terms or conditions of his employment agreement, or agreement to provide services to the Group Company, including, 28. without limitation, the breach of any duty of non-disclosure or non-competition; (ii) engages in willful misconduct or acts in bad faith with respect to any Group Company in connection with his employment or other agreement with a Group Company; or (iii) is convicted of a felony.

In the event of the institution of any legal proceedings directed to the validity of the Israeli Plan or any Option, the 29. Company may, in its sole discretion, and without incurring any liability therefore to the Participant, terminate the Option.

30. All terms and conditions herein are subject to any Applicable Law.

For purposes of this Article VI, “*Termination Date*” shall mean the date on which Participant’s employment or 31. engagement with a Group Company is terminated.

## ARTICLE VII

### Non-Transferability of Incentive Rights

An Incentive that is granted hereunder shall not be transferable otherwise than by will or the laws of descent and distribution. To the extent provided in Article VI (Exercise of Options, Termination), an Option may be exercised, during the lifetime of the Participant, only by the Participant. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged or hypothecated in any way, shall not be assignable by operation of law, and shall not be subject to execution, attachment or similar 32. process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Incentive contrary to the provisions of the Award Agreement or the Israeli Plan, and the levy of any execution, attachment, or similar process upon the Incentive, shall be null and void and without effect; provided, however, that if the Participant shall die while in the employ of the Company or any subsidiary, his estate, personal representative, or beneficiary shall have the right to exercise the Option to the extent exercisable in accordance with Article VI (Exercise of Options, Termination).



## ARTICLE VIII

### Adjustments

33. Except as otherwise provided by Section 12.4 of the Incentive Plan, upon the occurrence of any of the following events (each a “*Transaction*”):

Annex B-25

- a. a merger or consolidation of the Company (a “*Merger*”) with or into any company (the “*Successor Company*”) resulting in the Successor Company being the surviving entity; or
- b. an acquisition of: (i) all or substantially all of the shares or assets of the Company in one or more related transactions to another party (a “*Share Sale*”), or (ii) all or substantially all of the assets of the Company, in one or more related transactions to another party, in each case such acquirer of shares or assets is referred to herein as the “*Acquiring Company*”;

for any unexercised Incentive remain outstanding under the Israeli Plan (the “*Unexercised Incentive*”), there shall be substituted for the Shares subject to the Unexercised Incentive an appropriate number of shares of such class of shares or other securities of the Successor Company or the Acquiring Company, as the case may be (or, if such company is not an operating company, of the first operating company in the ownership chain of such company) (the “*Substitute Shares*”). Appropriate equitable adjustments shall be made in the purchase price per share of the Substitute Shares subject to the Unexercised Incentive, and all other terms and conditions of the Award Agreements, such as the vesting dates, shall remain in force, all as will be determined by the Board whose determination shall be final.

34. The Committee shall have full authority to determine any provisions regarding the acceleration of the vesting period of any Incentive or the cancellation of all or any portion of any outstanding restrictions with respect to any Incentive upon certain events or occurrences, and to include such provisions in the Award Agreement on such terms and conditions as the Committee shall deem appropriate.

35. Subject to Applicable Law, the Committee shall have full authority to, at any time and from time to time, without the approval of the stockholders of the Company, (i) grant in its discretion to the holder of an outstanding Incentive, in exchange for the surrender and cancellation of such Incentive, a new Incentive having an exercise price or purchase price, as the case may be, lower than provided in the Award (and related Award Agreement) so surrendered and canceled and containing such other terms and conditions as the Committee may prescribe in accordance with the provisions of the Israeli Plan and any Applicable Law, or (ii) effectuate a decrease in the Incentive Price of outstanding Incentives. At the full discretion of the Administrator, such actions may be brought before the stockholders of the Company for their approval.

36. In the event of a Share Sale or a Merger, each Participant shall participate in the Share Sale or the Merger and sell or exchange, as the case may be, all of his or her Shares and Incentives in the Company, provided, however, that each such Share or Incentive shall be sold or exchanged at a price or ratio (as the case may be) equal to that of any other share sold or exchanged under the Share Sale or the Merger (minus the applicable exercise price), while accounting for changes in such price or ratio due to the respective terms of any such Award.

37. With respect to Incentive Shares held in trust the following procedure will be applied: the Trustee (as defined below) will transfer the Incentive Shares held in trust and sign any document in order to effectuate the transfer of Incentive Shares, including share transfer deeds, provided, however, that the Trustee receives a notice from the Board, specifying that: (i) all or substantially all of the issued outstanding share capital of the Company is to be sold or exchanged, and therefore the Trustee is obligated to transfer the Incentive Shares held in trust; (ii) the Company is obligated to withhold at the source all taxes required to be paid upon release of the Incentive Shares from the trust and to provide the Trustee with evidence, satisfactory to the Trustee, that such taxes indeed have been paid; (iii) the Company is obligated to transfer the consideration for the Incentive Shares directly to the

Participant.

## ARTICLE IX

### Changes in Capitalization

38. In case of any change in capitalization event as provided in Article 11 of the Incentive Plan, appropriate equitable adjustments shall be made by the Board, whose determination shall be final, to the number of Shares which may be purchased under the Israeli Plan, the number of Shares subject to Awards, and the Incentive Price per Share which may be purchased under outstanding Award Agreements, all as in accordance with Article 11 of the Incentive Plan.

Annex B-26

## ARTICLE X

### Trustee

39. Approved 102 Incentives granted under the Israeli Plan and any Shares allocated or issued upon exercise of such Approved 102 Incentives, including all rights attaching to such shares, and other shares received subsequently following any realization of rights (including bonus shares), will be allocated or issued to a trustee nominated by the Board (the “*Trustee*”) and approved in accordance with the provisions of Section 102 of the Ordinance, and will be held by the Trustee for the benefit of the Participants.

40. Approved 102 Incentives and any Shares received following exercise of Approved 102 Incentives, including all rights attached to such Shares, and other Shares received subsequently following any realization of rights (including bonus Shares), will be held by the Trustee for a period of (i) at least twenty four (24) months from the Date of Grant of the Capital Gain Incentives , or (ii) at least twelve (12) months from the Date of Grant of the Work Income Incentives (the “*Trust Period*”). If the requirements for Approved 102 Incentives are not met, then the Approved 102 Incentives will be regarded as Unapproved 102 Incentives. Notwithstanding the aforesaid, Shares received upon the exercise of Incentives may be sold or transferred, and the Trustee may release such Shares (or Approved 102 Incentives) from trust, prior to the lapse of the Trust Period, provided, however, that tax is paid or withheld in accordance with Section 102(b)(4) of the Ordinance and Section 7 of the Income Tax Rules (Tax Relief in Issuance of Shares to Employees), 2003. However, the Administrator may, in its sole discretion, require a Participant not to sell the Shares or transfer the Incentives in the Participant’s name prior to the lapse of the Trust Period.

41. All rights attaching to any Shares received following exercise of Approved 102 Incentives, and other shares received subsequently following any realization of rights (including bonus Shares), will be subject to the same taxation treatment applicable to such received Shares.

42. Section 3(i) Incentives granted under the Israeli Plan and any Shares allocated or issued upon exercise of such Section 3(i) Incentives and other Shares received following any realization of rights, in the Administrator’s discretion, may be allocated or issued to a Trustee and will be held by the Trustee until all of the terms required for release thereof, as set forth herein and in the applicable Award agreement with the Participant, are fulfilled, including payment of the required taxes. Anything to the contrary notwithstanding, the Trustee shall not transfer to a Participant any Section 3(i) Incentives which were not already exercised into Shares by the Participant.

43. The Trustee shall not transfer to the Participant any Shares allocated or issued upon exercise of Incentives prior to the full payment of the Participant’s tax liabilities arising from or relating to Incentives, which were granted to the Participant or any Shares allocated or issued upon exercise of such Incentives.

## ARTICLE XI

### No Obligation to Exercise Incentive

44. Granting of an Incentive shall impose no obligation on the recipient to exercise such Incentive.

## **ARTICLE XII**

### **Use of Proceeds**

45. The proceeds received from the issuance of Shares upon exercise of Incentives pursuant to the Israeli Plan shall be used for general corporate purposes.

## **ARTICLE XIII**

### **Rights of a Stockholder; Voting Rights**

The Participant shall have no rights of a stockholder with respect to Shares to be acquired by the exercise of an Incentive until a certificate or certificates representing such Shares are issued to him following exercise of those 46. Incentives which are fully vested and exercisable. Upon issuance of a certificate or certificates, the Participant shall have the rights of a stockholder attaching to Shares subject to any restrictions or legends under any law, this Israeli Plan or the Incentive Plan.

Annex B-27

## ARTICLE XIV

### Employment Rights

Nothing in the Israeli Plan or in any Approved 102 Incentive granted hereunder shall confer on any Participant who is an employee or service provider any right to continue in the employ of the Company or a Group Company, or to interfere in any way with the right of the Company or a Group Company to terminate the Participant's employment or engagement at any time.

## ARTICLE XV

### Compliance with the Law

The Company and each of its Affiliates shall be relieved from any liability for the non-issuance or non-transfer or any delay in issuance or transfer of any Shares subject to Incentives under the Israeli Plan which results from the inability of the Company or its Affiliates to obtain, or from any delay in obtaining, from any regulatory body having jurisdiction, all requisite authority to issue or transfer the Shares upon exercise of the Incentives under the Israeli Plan, if counsel for the Company deems such authority necessary for lawful issuance or transfer of any such shares. Appropriate legends may be placed on the stock certificates evidencing shares issued upon exercise of Incentives to reflect such transfer restrictions.

## ARTICLE XVI

### Transfer of Shares

Any issued Shares shall, unless such shares are registered in accordance with the United States Securities Act of 1933, as amended (the "*Act*"), be sold only in accordance with exemptions under such Act. There shall be no exercises, transfers, sales or other dispositions of issued Shares unless such shares are either registered or exempt from registration, provided, however, that such exercise, transfer or other disposition may be subject to any lock up provision as agreed by the Company.

## ARTICLE XVII

### Investment Representation

Each Participant exercising any Incentive under the Israeli Plan acknowledges, by virtue of such exercise, that the Company has not, as of the date of the approval of this Plan by the Board, registered the Shares covered thereby under the Act. The Participant shall sign and deliver to the Company, if requested, a separate investment representation, certificate or such other document as may be required by the Company's counsel, to such effect; 50. provided, however, that such Incentive, representation, certificate or other document may provide that the said investment restriction shall not be operative as to such Shares as may in the future be registered with the Securities and Exchange Commission pursuant to the Act. Furthermore, the Company may place a legend on any Shares certificate delivered to the Participant to the effect that such Shares were acquired pursuant to an investment representation and without registration of the Shares.

## **ARTICLE XVIII**

### **Effectiveness and Term of Plan**

This Israeli Plan was originally adopted by the Board on October 25, 2013. The Israeli Plan shall expire on October 25, 2023, except as to Incentives outstanding on that date. No Incentive shall be granted pursuant to the 51. Israeli Plan after its expiration. All Shares reserved for issuance under the Israeli Plan, in respect of which the right of a Participant to purchase the same shall for any reason terminate, expire or otherwise cease to exist, shall again be available for grant through Incentives under the Israeli Plan.

Annex B-28

## ARTICLE XIX

### Amendment or Discontinuance of Plan

The Board may, without the consent of the stockholders of the Company or the Participants under the Israeli Plan, at any time terminate the Israeli Plan entirely and at any time, from time to time, amend or modify the Israeli Plan, 52. provided that no such action shall adversely affect Incentives granted hereunder without the Participant's consent, and provided further that no such action by the Board, without the approval of the stockholders, may increase the total number of Shares which may be purchased pursuant to Incentives granted under the Israeli Plan.

## ARTICLE XX

### Tax Consequences and Other Requirements

The exercise of an Incentive that is granted hereunder shall be subject to the condition that if at any time the Company shall determine in its discretion that the satisfaction of withholding tax or other withholding liabilities, or that the listing, registration, or qualification of any shares otherwise deliverable upon such exercise upon any securities exchange or under any national, state or federal law, or that the consent or approval of any regulatory body, is necessary or desirable as a condition of, or in connection with, such exercise in the delivery or purchase of shares pursuant thereto, then in any such event, such exercise shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions 53. not acceptable to the Company. Any tax obligations arising from the grant or exercise of an Incentive, from the payment for the Shares covered thereby or from any other event or act (of the Company or the Participant) hereunder, shall be borne solely by the Participant. Furthermore, the Participant hereby agrees and undertakes to indemnify the Company, its directors and officers and any Trustee that holds the Incentives, and hold them harmless against and from any and all liability for any such tax or interest thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Participants.

## ARTICLE XXI

### Governing Law

54. The Israeli Plan and all instruments issued hereunder shall be governed by and interpreted in accordance with the laws of the State of Israel.

## ARTICLE XXII



**Notices**

Each notice relating to the Israeli Plan shall be in writing and delivered in person or by first class mail; postage prepaid, to the address as hereinafter provided. Each notice shall be deemed to have been given on the date it is received. Each notice to the Company shall be addressed to it at its principal offices. Each notice to the Participant or other person or persons then entitled to exercise an Incentive shall be addressed to the Participant or such other person or persons at the Participant's last known address.

**ARTICLE XXIII**

**Interpretation**

56. The interpretation and construction of any terms or conditions of the Israeli Plan, or of the Award Agreement or other matters related to the Israeli Plan by the Administrator shall be final and conclusive.

\*\*\*\*\*

Annex B-29

**Annex C**

If the proposal to approve the amendment to our Certificate of Incorporation to effect the Reverse Stock Split (Proposal 2) is approved, the amended and restated certificate of incorporation of InspireMD, Inc. will be amended in the form below (deletions are shown with a strike-through and additions are underlined):

**PROPOSED AMENDMENT**

**TO THE**

**AMENDED AND RESTATED**

**CERTIFICATE OF INCORPORATION**

**OF**

**INSPIREMD, INC.**

FOURTH:

B. Effective as of [ ], New York time, on [ ], 2017 (the “Effective Time”), each share of the Corporation’s common stock, \$0.0001 par value per share (the “Old Common Stock”), either issued or outstanding or held by the Corporation as treasury stock, immediately prior to the Effective Time, will be automatically reclassified as and converted (without any further act) into 1/[ ] of a fully paid and nonassessable share of common stock, \$0.0001 par value per share, of the Corporation (the “New Common Stock”) without increasing or decreasing the amount of stated capital or paid-in surplus of the Corporation (the “Reverse Stock Split”), provided that no fractional shares shall be issued to any registered holder of Old Common Stock immediately prior to the Effective Time, and that instead of issuing such fractional shares to such holders, such fractional shares shall be rounded up to the next even number of shares of Common Stock issued as a result of this Reverse Stock Split at no cost to the stockholder. Any stock certificate that, immediately prior to the Effective Time, represented shares of the Old Common Stock will, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent the number of shares of the New Common Stock as equals the product obtained by multiplying the number of shares of Old Common Stock represented by such certificate immediately prior to the Effective Time by 1/[ ].





