

ENDOLOGIX INC /DE/
Form 10-Q
November 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission file number 000-28440

ENDOLOGIX, INC.

(Exact name of registrant as specified in its charter)

Delaware

68-0328265

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

2 Musick, Irvine, California 92618

(Address of principal executive offices)

(949) 595-7200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer

☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

On November 3, 2016, there were 82,691,080 shares outstanding of the registrant's only class of common stock.

ENDOLOGIX, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

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Part I. Financial Information

ENDOLOGIX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value amounts)

(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$22,022	\$124,553
Restricted cash	2,001	—
Marketable securities	38,974	52,768
Accounts receivable, net allowance for doubtful accounts of \$639 and \$226, respectively.	37,356	28,531
Other receivables	659	375
Inventories	43,387	27,860
Prepaid expenses and other current assets	4,064	2,325
Total current assets	\$148,463	\$236,412
Property and equipment, net	24,159	23,355
Goodwill	120,917	28,685
Intangibles, net	85,735	42,118
Deposits and other assets	1,391	480
Total assets	\$380,665	\$331,050
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$12,970	\$17,549
Accrued payroll	20,698	13,030
Accrued expenses and other current liabilities	11,619	5,576
Contingently issuable common stock	14,800	14,700
Total current liabilities	\$60,087	\$50,855
Deferred income taxes	879	879
Deferred rent	7,975	8,051
Other liabilities	3,839	210
Convertible notes	174,734	167,748
Total liabilities	\$247,514	\$227,743
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 5,000,000 shares authorized. No shares issued and outstanding.	—	—
Common stock, \$0.001 par value; 135,000,000 shares authorized. 82,656,358 and 68,235,179 shares issued, respectively. 82,444,119 and 68,034,386 shares outstanding, respectively.	83	68
Treasury stock, at cost, 212,239 and 200,793 shares, respectively.	(2,942)	(2,809)
Additional paid-in capital	563,109	404,462
Accumulated deficit	(428,676)	(298,924)
Accumulated other comprehensive income	1,577	510
Total stockholders' equity	\$133,151	\$103,307

Total liabilities and stockholders' equity	\$380,665	\$331,050
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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ENDOLOGIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$52,122	\$38,231	\$145,462	\$114,380
Cost of goods sold	15,191	11,195	51,131	36,306
Gross profit	36,931	27,036	94,331	78,074
Operating expenses:				
Research and development	8,236	5,459	23,796	17,683
Clinical and regulatory affairs	3,759	3,956	11,664	11,003
Marketing and sales	26,007	19,662	82,749	59,103
General and administrative	9,714	7,293	29,869	21,432
Restructuring costs	498	—	8,612	—
Settlement costs	—	—	4,650	—
Contract termination and business acquisition expenses	(49)	)—	5,856	—
Total operating expenses	48,165	36,370	167,196	109,221
Loss from operations	(11,234)	)(9,334)	)(72,865)	)(31,147)
Other income (expense):				
Interest income	58	34	168	116
Interest expense	(4,084)	)(1,506)	)(11,681)	)(4,460)
Other income (expense), net	189	(89)	(723)	)735
Change in fair value of contingent consideration related to acquisition	—	—	(100)	)(200)
Change in fair value of derivative liabilities	—	—	(43,831))—
Total other income (expense)	(3,837)	)(1,561)	)(56,167)	)(3,809)
Net loss before income tax expense	(15,071)	)(10,895)	)(129,032)	)(34,956)
Income tax expense	(174)	)(22)	(720)	)(175)
Net loss	\$(15,245)	\$(10,917)	\$(129,752)	\$(35,131)
Other comprehensive income (loss) foreign currency translation	153	463	1,067	(1,207)
Comprehensive loss	\$(15,092)	\$(10,454)	\$(128,685)	\$(36,338)
Basic and diluted net loss per share	\$(0.18)	)(0.16)	)(1.61)	)(0.52)
Shares used in computing basic and diluted net loss per share	82,446	67,810	80,402	67,568

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

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ENDOLOGIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(129,752)	\$(35,131)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	383	109
Depreciation and amortization	6,566	4,561
Stock-based compensation	9,641	7,169
Change in fair value of derivative liabilities	43,831	—
Change in fair value of contingent consideration related to acquisition	100	200
Accretion of interest & amortization of deferred financing costs on convertible notes	7,037	2,999
Non-cash foreign exchange loss (gain)	838	(593)
Changes in operating assets and liabilities:		
Restricted cash	(2,001)	—
Accounts receivable and other receivables	(3,883)	(1,452)
Inventories	2,083	(1,889)
Prepaid expenses and other current assets	535	148
Accounts payable	(6,607)	4,730
Accrued payroll	7,660	633
Accrued expenses and other liabilities	3,498	182
Net cash used in operating activities	\$(60,071)	\$(18,334)
Cash flows from investing activities:		
Purchases of marketable securities	(20,976)	(52,420)
Maturities of marketable securities	37,850	79,340
Purchases of property and equipment	(2,051)	(3,572)
Acquisition of business, net of cash acquired of \$24,012	(60,622)	—
Net cash (used in) provided by investing activities	\$(45,799)	\$23,348
Cash flows from financing activities:		
Deferred financing costs	(917)	—
Proceeds from sale of common stock under employee stock purchase plan	2,520	2,787
Proceeds from exercise of stock options	1,777	1,631
Minimum tax withholding paid on behalf of employees for restricted stock units	(134)	(291)
Net cash provided by financing activities	\$3,246	\$4,127
Effect of exchange rate changes on cash and cash equivalents	93	(535)
Net (decrease) increase in cash and cash equivalents	\$(102,531)	\$8,606
Cash and cash equivalents, beginning of period	124,553	26,798
Cash and cash equivalents, end of period	\$22,022	\$35,404
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$3,088	\$976
Cash paid for income taxes	\$214	\$162
Non-cash investing and financing activities:		
Landlord funded leasehold improvements	\$—	\$46
Acquisition of property and equipment included in accounts payable	\$64	\$43
Fair value of common stock issued for business acquisition	\$100,812	\$—

Fair value of warrants issued for business acquisition	\$44	\$—
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

1. Description of Business, Basis of Presentation, and Operating Segment

(a) Description of Business

Endologix, Inc. (the "Company") is a Delaware corporation with corporate headquarters in Irvine, California and production facilities located in Irvine, California and Santa Rosa, California. The Company develops, manufactures, markets, and sells innovative medical devices for the treatment of aortic disorders. The Company's products are intended for the minimally invasive endovascular treatment of abdominal aortic aneurysms ("AAA"). The Company's AAA products include innovations for minimally-invasive endovascular aneurysm repair ("EVAR") or endovascular aneurysm sealing ("EVAS"), the Company's innovative solution for sealing the aneurysm sac while maintaining blood flow through two blood flow lumens. The Company's current EVAR products include the Ovation® Abdominal Stent Graft System ("Ovation"), and the AFX® Endovascular AAA System ("AFX") which features the VELA™ Proximal Endograft System ("VELA") and the AFX2 Bifurcated Endograft System ("AFX2"). The Company's current EVAS product is the Nellix® EndoVascular Aneurysm Sealing System ("Nellix EVAS System"). Sales of the Company's EVAR and EVAS platforms (including extensions and accessories) to hospitals in the U.S. and Europe, and to third-party international distributors worldwide, provide the sole source of the Company's reported revenue.

On February 3, 2016, the Company completed the previously announced acquisition of TriVascular Technologies, Inc. ("TriVascular"). The acquisition expanded our product offering and intellectual property, increased our sales force, and enhanced our product development capabilities.

The Company's Ovation products consist of a radiopaque nitinol stent for suprarenal fixation and a low-permeability polytetrafluoroethylene (PTFE) graft. The stent is designed with integral anchors to enable fixation to the aortic wall. To seal the graft and to provide support for the aortic body legs into which the iliac limbs are deployed, the graft contains a network of inflatable rings that are filled with a liquid polymer that solidifies during the deployment procedure.

The Company's AFX products consist of (i) a cobalt chromium alloy stent covered by polytetrafluoroethylene (commonly referred to as "ePTFE") graft material ("Stent Graft") and (ii) accompanying delivery systems. Once fixed in its proper position within the abdominal aortic bifurcation, the Company's AFX device provides a conduit for blood flow, thereby relieving pressure within the weakened or "aneurysmal" section of the vessel wall, which greatly reduces the potential for the AAA to rupture.

The Company's Nellix EVAS System product consists of (i) bilateral covered stents with endobags, (ii) a biocompatible polymer injected into the endobags to seal the aneurysm and (iii) a delivery system and polymer dispenser. The Company's EVAS product seals the entire aneurysm sac effectively excluding the aneurysm reducing the likelihood of future aneurysm rupture. Additionally, it has the potential to reduce post procedural re-interventions.

(b) Basis of Presentation

The accompanying Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These financial statements include the financial position, results of operations, and cash flows of the Company, including its subsidiaries, all of which are wholly-owned. All inter-company accounts and transactions have been eliminated in consolidation. For the

three and nine months ended September 30, 2016 and 2015, there were no related party transactions.

The interim financial data as of September 30, 2016 is unaudited and is not necessarily indicative of the results for a full year. In the opinion of the Company's management, the interim data includes normal and recurring adjustments necessary for a fair presentation of the Company's financial results for the three and nine months ended September 30, 2016. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations relating to interim financial statements. The interim financial data includes the results of TriVascular Technologies, Inc., beginning on February 3, 2016, the date of the acquisition.

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 29, 2016.

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The FASB agreed to a one-year deferral of the revenue recognition standard's effective date for all entities. The new standard is effective for the Company on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. Early application is permitted, but not before the original effective date, which would have been January 1, 2017 for the Company. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has begun its analysis of adopting the standard and evaluating the impact the standard will have on its financial reporting but has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On April 7, 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The ASU was effective for the Company on January 1, 2016. The Company adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" during the first quarter of 2016, utilizing retrospective application as permitted. As a result, the Company reclassified debt issuance costs from other assets to reduce the convertible notes as of December 31, 2015 and as of September 30, 2016. In conjunction with the Company's adoption of ASU 2015-03, the Company also adopted an update thereof or ASU 2015-15 "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of Credit Arrangements." As a result, the Company classified debt issuance costs related to a line-of-credit arrangement as other assets.

On July 22, 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory," which requires an entity to measure inventory within the scope of the amendment at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The new guidance also requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this standard and has applied it to provisional amounts related to the TriVascular acquisition.

On February 25, 2016, the FASB issued ASU 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, "Leases." The new topic supersedes Topic 840, "Leases," and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires

disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which includes multiple provisions intended to simplify various aspects of accounting and reporting for share-based payments. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect that ASU 2016-15 will have on its consolidated financial statements and related disclosures.

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

On October 24, 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which requires an entity to immediately recognize the tax consequences of intercompany transfer other than inventory. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is assessing the impact this guidance will have on its consolidated financial statements.

(c) Operating Segment

The Company has one operating and reporting segment that is focused exclusively on the development, manufacture, marketing, and sale of EVAR and EVAS product for the treatment of aortic disorders. For the three and nine months ended September 30, 2016, all of the Company's revenue and related expenses were solely attributable to these activities. Substantially all of the Company's long-lived assets are located in the U.S.

2. Use of Estimates and Summary of Significant Accounting Policies

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company's management evaluates its estimates, including those related to (i) collectibility of customer accounts; (ii) whether the cost of inventories can be recovered; (iii) the value of goodwill and intangible assets; (iv) realization of tax assets and estimates of tax liabilities; (v) likelihood of payment and value of contingent liabilities; and (vi) potential outcome of litigation. Such estimates are based on management's judgment which takes into account historical experience and various assumptions.

Nonetheless, actual results may differ from management's estimates.

For a complete summary of our significant accounting policies, please refer to Note 2, "Use of Estimates and Summary of Significant Accounting Policies", in Part II, Item 8, of our 2015 Annual Report on Form 10-K for the year ended December 31, 2015, filed February 29, 2016. There have been no material changes to our significant accounting policies during the three and nine months ended September 30, 2016.

3. Balance Sheet Account Detail

(a) Property and Equipment

Property and equipment consisted of the following:

	September 30, 2016	December 31, 2015
Production equipment, molds, and office furniture	\$ 14,732	\$ 13,603
Computer hardware and software	7,392	6,380
Leasehold improvements	15,495	14,345
Construction in progress (software and related implementation, production equipment, and leasehold improvements)	1,380	510
Property and equipment, at cost	\$ 38,999	\$ 34,838
Accumulated depreciation	(14,840)	(11,483)
Property and equipment, net	\$ 24,159	\$ 23,355

Depreciation expense for property and equipment for the three months ended September 30, 2016 and 2015 was \$1.3 million and \$1.2 million, respectively. For the nine months ended September 30, 2016 and 2015 depreciation expense for property and equipment was \$3.9 million and \$3.4 million, respectively.

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

(b) Inventories

Inventories consisted of the following:

	September 30, 2016	December 31, 2015
Raw materials	\$ 11,721	\$ 7,701
Work-in-process	10,473	4,355
Finished goods	21,193	15,804
Total Inventories	\$ 43,387	\$ 27,860

(c) Goodwill and Intangible Assets

The following table presents goodwill, indefinite lived intangible assets, finite lived intangible assets and related accumulated amortization:

	September 30, 2016	December 31, 2015
Goodwill (1)	\$ 120,917	\$ 28,685
Intangible assets:		
Indefinite lived intangibles		
Trademarks and trade names	\$ 2,708	\$ 2,708
In-process research and development (1)	11,200	—
Finite lived intangibles		
Developed technology (1)	\$ 67,600	\$ 40,100
Accumulated amortization	(2,773)	(690)
Developed technology, net	\$ 64,827	\$ 39,410
License	\$ 100	\$ 100
Accumulated amortization	(100)	(100)
License, net	\$ —	\$ —
Customer relationships (1)	\$ 7,500	\$ —
Accumulated amortization	(500)	—
Customer relationships, net	\$ 7,000	\$ —

Intangible assets (excluding goodwill), net \$ 85,735 \$ 42,118

(1) Difference in the value between these dates is mainly due to acquisition of TriVascular. Refer to Note 12 of the condensed consolidated financial statements for further discussion.

Amortization expense for intangible assets for the three months ended September 30, 2016 and 2015 was \$1.0 million and \$0.4 million, respectively. For the nine months ended September 30, 2016 and 2015 amortization expense for intangible assets was \$2.6 million and \$1.2 million, respectively.

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

Estimated amortization expense for the five succeeding years and thereafter is as follows:

Remainder of 2016	\$951
2017	4,023
2018	5,255
2019	6,801
2020	8,044
2021 & Thereafter	46,753
Total	\$71,827

(d) Marketable securities

Investments in held-to-maturity marketable securities consist of the following at September 30, 2016 and December 31, 2015:

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Agency bonds	\$10,484	\$ 5	\$ —	\$10,489
Corporate bonds	10,521	—	(17)	10,504
Commercial paper	3,977	—	—	3,977
Government securities	13,992	5	—	13,997
Total	\$38,974	\$ 10	\$ (17)	\$38,967

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Agency bonds	\$8,000	\$ —	\$ (20)	\$7,980
Corporate bonds	40,824	1	(33)	40,792
Commercial paper	3,944	—	—	3,944
Total	\$52,768	\$ 1	\$ (53)	\$52,716

At September 30, 2016, the Company's investments included 5 held-to-maturity debt securities in unrealized loss positions with a total unrealized loss of approximately \$17 thousand and a total fair market value of approximately \$10.5 million. All investments with gross unrealized losses have been in unrealized loss positions for less than 2 months. The unrealized losses were caused by interest rate fluctuations. There was no change in the credit risk of the securities. The Company does not intend to sell the securities and it is not likely that the Company will be required to sell the securities before the expected recovery of their amortized cost bases. There were no realized gains or losses on the investments for the three and nine months ended September 30, 2016. All of the Company's investments of held-to-maturity securities will mature within less than 12 months with an average maturity of 5 months.

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

(e) Fair Value Measurements

The following fair value hierarchy table presents information about each major category of the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

	Fair value measurement at reporting date using:			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At September 30, 2016				
Cash and cash equivalents	\$22,022	\$ —	\$ —	\$22,022
Restricted cash	\$2,001	\$ —	\$ —	\$2,001
Contingently issuable common stock	\$—	\$ —	\$ 14,800	\$14,800
At December 31, 2015				
Cash and cash equivalents	\$124,553	\$ —	\$ —	\$124,553
Contingently issuable common stock	\$—	\$ —	\$ 14,700	\$14,700

There were no re-measurements to fair value during the nine months ended September 30, 2016 of financial assets and liabilities that are not measured at fair value on a recurring basis. There were no transfers between Level 1, Level 2 or Level 3 securities during the nine months ended September 30, 2016.

(f) Financial Instruments Not Recorded at Fair Value on a Recurring Basis

We measure the fair value of our Senior Notes carried at amortized cost quarterly for disclosure purposes. The estimated fair value of the Senior Notes is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar securities. Based on the market prices, the fair value of our long-term debt was \$249.1 million as of September 30, 2016 and \$207.9 million as of December 31, 2015.

We measure the fair value of our held-to-maturity marketable securities carried at amortized cost quarterly for disclosure purposes. The fair value of marketable securities is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar instruments.

4. Stock-Based Compensation

The Company classifies stock-based compensation expense in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss, based on the department to which the recipient belongs. Stock-based compensation expense included in cost of goods sold and operating expenses during the three and nine months ended September 30, 2016 and 2015, was as follows:

	Three Months Ended		September Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Cost of goods sold	\$200	\$257	\$730	\$731
Operating expenses:				
Research and development	389	252	1,187	737
Clinical and regulatory affairs	290	321	782	749
Marketing and sales	1,004	888	3,395	2,476
General and administrative	992	832	3,547	2,476
Total operating expenses	\$2,675	\$2,293	\$8,911	\$6,438
Total	\$2,875	\$2,550	\$9,641	\$7,169

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

5. Net Loss Per Share

Net loss per share was calculated by dividing net loss by the weighted average number of common shares outstanding for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$(15,245)	\$(10,917)	\$(129,752)	\$(35,131)
Shares used in computing basic and diluted net loss per share	82,446	67,810	80,402	67,568
Basic and diluted net loss per share	\$(0.18)	\$(0.16)	\$(1.61)	\$(0.52)

The following outstanding Company securities, using the treasury stock method, were excluded from the above calculations of net loss per share because their impact would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Common stock options	2,006	1,600	1,384	1,739
Restricted stock awards	138	135	133	133
Restricted stock units	465	207	358	247
Total	2,609	1,942	1,875	2,119

As discussed in Note 6, in December 2013, the Company issued \$86.3 million in aggregate principal amount of 2.25% Convertible Senior Notes due 2018 (the "2.25% Senior Notes") in an underwritten public offering. In November 2015, the Company also issued \$125.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2020 (the "3.25% Senior Notes") in an underwritten public offering. Upon any conversion, the 2.25% Senior Notes and/or 3.25% Senior Notes, (collectively the "Senior Notes") may be settled, at the Company's election, in cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. For purposes of calculating the maximum dilutive impact, the Company presumed that the Senior Notes will be settled in common stock with the resulting potential common shares included in diluted earnings per share if the effect is more dilutive. The effect of the conversion of the Senior Notes is excluded from the calculation of diluted loss per share because the impact of these securities would be anti-dilutive. The potential dilutive effect of these securities is shown in the chart below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Conversion of the Notes	14,767	3,588	14,767	3,588

The effect of the contingently issuable common stock is excluded from the calculation of basic net loss per share until all necessary conditions for issuance have been satisfied. Refer to Note 9 of the Notes to the Condensed Consolidated Financial Statements for further discussion.

6. Credit Facilities

2.25% Convertible Senior Notes

On December 10, 2013, the Company issued \$86.3 million in aggregate principal amount of 2.25% Convertible Senior Notes (the “2.25% Senior Notes”). The 2.25% Senior Notes mature on December 15, 2018 unless earlier repurchased by the Company or converted. The Company received net proceeds of approximately \$82.6 million from the sale of the 2.25% Senior Notes, after deducting underwriting discounts and commissions and offering expenses payable by the Company. Interest is payable on the 2.25% Senior Notes on June 15 and December 15 of each year, beginning June 15, 2016.

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The 2.25% Senior Notes are governed by the terms of a base indenture (the “Base Indenture”), as supplemented by the first supplemental indenture relating to the 2.25% Senior Notes (the “First Supplemental Indenture,” and together with the Base Indenture, the “Indenture”), between the Company and Wells Fargo Bank, National Association (the “Trustee”), each of which were entered into on December 10, 2013.

The 2.25% Senior Notes are senior unsecured obligations and are: (a) senior in right of payment to the Company’s future indebtedness that is expressly subordinated in right of payment to the 2.25% Senior Notes; (b) equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; (c) effectively junior to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and (d) and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries.

The Company may not redeem the 2.25% Senior Notes prior to December 15, 2016. On or after December 15, 2016, the Company may redeem for cash all or any portion of the 2.25% Senior Notes, at its option, but only if the closing sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the second trading day immediately preceding the date on which the Company provides notice of redemption, exceeds 130% of the conversion price on each applicable trading day. The redemption price will equal 100% of the principal amount of the 2.25% Senior Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2.25% Senior Notes.

Holders may convert their 2.25% Senior Notes at any time prior to the close of business on the business day immediately preceding September 15, 2018 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2014, if the closing sale price of the Company’s common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price of the 2.25% Senior Notes in effect on each applicable trading day; (2) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for the 2.25% Senior Notes for each such trading day was less than 98% of the closing sale price of the Company’s common stock on such date multiplied by the then-current conversion rate; (3) if the Company calls all or any portion of the notes for redemption, at any time prior to the close of business on the second scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On or after September 15, 2018 until the close of business on the second scheduled trading day immediately preceding the stated maturity date, holders may surrender their 2.25% Senior Notes for conversion at any time, regardless of the foregoing circumstances.

Upon conversion, the Company will, at its election, pay or deliver, as the case may be, cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock.

The initial conversion rate of the 2.25% Senior Notes will be 41.6051 shares of the Company’s common stock for each \$1,000 principal amount of 2.25% Senior Notes, which represents an initial conversion price of approximately \$24.04 per share. Following certain corporate transactions that occur on or prior to the stated maturity date or the Company’s delivery of a notice of redemption, the Company will increase the conversion rate for a holder that elects to convert its 2.25% Senior Notes in connection with such a corporate transaction.

If a fundamental change (as defined in the Indenture) occurs prior to the stated maturity date, holders may require the Company to purchase for cash all or any portion of their 2.25% Senior Notes at a fundamental change purchase price equal to 100% of the principal amount of the 2.25% Senior Notes to be purchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date.

The Indenture contains customary terms and covenants and events of default with respect to the 2.25% Senior Notes. If an event of default (as defined in the Indenture) occurs and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding 2.25% Senior Notes may declare the principal amount of the 2.25% Senior Notes to be due and payable immediately by notice to the Company (with a copy to the Trustee). If an event of default arising out of certain events of bankruptcy, insolvency or reorganization involving the Company or a significant subsidiary (as set forth in the Indenture) occurs with respect to us, the principal amount of the 2.25% Senior Notes and accrued and unpaid interest, if any, will automatically become immediately due and payable.

Upon issuance and through December 31, 2015, the Company was not required to separate the conversion option in the 2.25% Senior Notes under ASC 815, "Derivatives and Hedging", and has the ability to settle the 2.25% Senior Notes in cash,

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common stock or a combination of cash and common stock, at its option. In accordance with cash conversion guidance contained in ASC 470-20, "Debt with Conversion and Other Options", the Company accounted for the 2.25% Senior Notes by allocating the issuance proceeds between the liability and the equity component. The equity component is classified in stockholders' equity and the resulting discount on the liability component is accreted such that interest expense equals the Company's nonconvertible debt borrowing rate. The separation was performed by first determining the fair value of a similar debt that does not have an associated equity component. That amount was then deducted from the initial proceeds of the 2.25% Senior Notes as a whole to arrive at a residual amount, which was allocated to the conversion feature that is classified as equity. The initial fair value of the indebtedness was \$66.9 million resulting in a \$19.3 million allocation to the embedded conversion option. The embedded conversion option was recorded in stockholders' equity and as debt discount, to be subsequently accreted to interest expense over the term of the 2.25% Senior Notes. Underwriting discounts and commissions and offering expenses totaled \$3.7 million and were allocated between the liability and the equity component in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. As a result, \$2.9 million attributable to the indebtedness was recorded as deferred financing costs in other assets, to be subsequently amortized as interest expense over the term of the 2.25% Senior Notes, and \$0.8 million attributable to the equity component was recorded as a reduction to additional paid-in-capital in stockholders' equity. The Company adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" during the first quarter of 2016, utilizing retrospective application as permitted. As a result, the Company reclassified \$1.9 million of debt issuance costs from other assets to reduce the convertible notes as of December 31, 2015.

As of September 30, 2016, the Company had outstanding borrowings of \$76.8 million, and deferred financing costs of \$1.5 million, related to the 2.25% Senior Notes. There are no principal payments due during the term. Annual interest expense on these notes will range from \$5.7 million to \$6.9 million through maturity.

Capped Call Transactions

On December 10, 2013, in connection with the pricing of the 2.25% Senior Notes and the exercise in full of their overallotment option by the underwriters, the Company entered into privately-negotiated capped call transactions (the "Capped Call Transactions") with Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated. The Capped Call Transactions initial conversion rate and number of options substantially corresponds to each \$1,000 principal amount of 2.25% Senior Notes. The Company used approximately \$7.4 million of the net proceeds from the 2.25% Senior Notes offering to pay for the cost of the Capped Call Transactions.

The Capped Call Transactions are separate transactions entered into by the Company with Bank of America, N.A., are not part of the terms of the 2.25% Senior Notes and will not change the holders' rights under the 2.25% Senior Notes. The Capped Call Transactions have anti-dilution adjustments substantially similar to those applicable to the 2.25% Senior Notes. The Capped Call Transactions are derivative instruments that are recorded within stockholders' equity because they meet an exemption from mark-to-market derivative accounting.

The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset potential cash payments that the Company is required to make in excess of the principal amount upon conversion of the 2.25% Senior Notes in the event that the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions, which initially

corresponds to the \$24.04 conversion price of the 2.25% Senior Notes. If, however, the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, exceeds the initial cap price of \$29.02, there would nevertheless be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that such market price exceeds the cap price of the Capped Call Transactions.

The Company will not be required to make any cash payments to Bank of America, N.A. or any of its affiliates upon the exercise of the options that are a part of the Capped Call Transactions, but will be entitled to receive from Bank of America, N.A. (or an affiliate thereof) a number of shares of the Company's common stock and/or an amount of cash generally based on the amount by which the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions during the relevant valuation period under the Capped Call Transactions. However, if the market price of the Company's common stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions during such valuation period under the Capped Call Transactions, the number of shares of common stock and/or the amount of cash the Company expects to receive upon exercise of the Capped Call Transactions will be capped based on the amount by which the cap price exceeds the strike price of the Capped Call Transactions.

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For any conversions of 2.25% Senior Notes prior to the close of business on the 55th scheduled trading day immediately preceding the stated maturity date of the 2.25% Senior Notes, including without limitation upon an acquisition of the Company or similar business combination, a corresponding portion of the Capped Call Transactions will be terminated. Upon such termination, the portion of the Capped Call Transactions being terminated will be settled at fair value (subject to certain limitations), as determined by Bank of America, N.A., in its capacity as calculation agent under the Capped Call Transactions, which the Company expects to receive from Bank of America, N.A., and no payments will be due Bank of America, N.A. The capped call expires on December 13, 2018.

3.25% Convertible Senior Notes due 2020

On November 2, 2015, the Company issued \$125.0 million aggregate principal amount of 3.25% Senior Convertible Notes due 2020 (the “3.25% Senior Notes”). The 3.25% Senior Notes are governed by the Base Indenture, as amended and supplemented by the second supplemental indenture relating to the 3.25% Senior Notes (the “Second Supplemental Indenture,” and together with the Base Indenture, the “3.25% Senior Notes Indenture”), dated as of November 2, 2015, by and between the Company and the Trustee.

The 3.25% Senior Notes are senior unsecured obligations and are: senior in right of payment to the Company’s future indebtedness that is expressly subordinated in right of payment to the 3.25% Senior Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated, including the 2.25% Senior Notes; effectively junior to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries.

The 3.25% Senior Notes accrue interest at a rate of 3.25% per year, payable semi-annually in arrears on May 1 and November 1 of each year, commencing May 1, 2016. The 3.25% Senior Notes mature on November 1, 2020, unless earlier purchased, redeemed or converted into shares of common stock in accordance with the terms of the 3.25% Senior Notes Indenture.

The Company may not redeem the 3.25% Senior Notes prior to November 1, 2018. On or after November 1, 2018, the Company may redeem for cash all or any portion of the 3.25% Senior Notes, at its option, but only if the closing sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the second trading day immediately preceding the date on which the Company provides notice of redemption, exceeds 130% of the conversion price on each applicable trading day. The redemption date can be no sooner than 30 trading days from the date on which notice of redemption is provided to the holders, during which time, up until two trading days prior to the redemption, the holders may elect to convert all or a portion of the 3.25% Senior Notes into shares of the Company’s common stock. The redemption price will equal 100% of the principal amount of the 3.25% Senior Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 3.25% Senior Notes.

The 3.25% Senior Notes are convertible at the option of the holders: (1) in the calendar quarter following any quarter in which, for at least 20 out of the 30 consecutive trading days (whether or not consecutive) ending on the last day of the quarter, the closing price of the Company’s common stock is more than 130% of the then-current conversion price of the 3.25% Senior Notes; (2) in the five business days following any five day period in which the trading price per \$1,000 note was less than 98% of the product of the closing sale price of the Company’s common stock and the current conversion rate; (3) in the event that the Company has provided notice of redemption, but no later than two trading days prior to Company’s proposed redemption date; or (4) upon the occurrence of specified corporate events. On or after August 1, 2020 until the close of business on the second scheduled trading day immediately preceding the stated

maturity date, holders may surrender their 3.25% Senior Notes for conversion at any time, regardless of the foregoing circumstances.

The initial conversion rate of the 3.25% Senior Notes is 89.4314 shares of the Company's common stock per 1,000 principal amount of the 3.25% Senior Notes, which is equivalent to an initial conversion price of approximately \$11.18 per share. The conversion rate is subject to adjustment upon the occurrence of certain specified events. Upon conversion, the Company will at its election pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock.

If a fundamental change (as defined in the 3.25% Senior Notes Indenture) occurs prior to the stated maturity date, holders may require the Company to purchase for cash all or any portion of their 3.25% Senior Notes at a fundamental change purchase price equal to 100% of the principal amount of the 3.25% Senior Notes to be purchased, plus accrued and unpaid interest.

The 3.25% Senior Notes Indenture contains customary terms and covenants and events of default with respect to the 3.25% Senior Notes. If an event of default (as defined in the 3.25% Senior Notes Indenture) occurs and is continuing, either the Trustee

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or the holders of at least 25% in aggregate principal amount of the outstanding 3.25% Senior Notes may declare the principal amount of the 3.25% Senior Notes to be due and payable immediately by notice to the Company (with a copy to the Trustee). If an event of default arising out of certain events of bankruptcy, insolvency or reorganization involving the Company or a significant subsidiary (as set forth in the 3.25% Senior Notes Indenture) occurs with respect to us, the principal amount of the 3.25% Senior Notes and accrued and unpaid interest, if any, will automatically become immediately due and payable.

Upon issuance and through December 31, 2015, the Company was not required to separate the conversion option from the 3.25% Senior Notes under ASC 815, "Derivatives and Hedging". However, because the Company has the ability to settle the 3.25% Senior Notes in cash, common stock or a combination of cash and common stock, the Company applied the cash conversion guidance contained in ASC 470-20, "Debt With Conversion and other Options", and accounted for the 3.25% Senior Notes by allocating the issuance proceeds between the liability-classified debt component and a separate equity component attributable to the conversion option. The equity component is classified in stockholders' equity and the resulting discount on the liability component is accreted such that interest expense equals the Company's borrowing rate for nonconvertible loan products of similar duration. The separation was performed by first determining the fair value of a similar debt that does not have an associated equity component. That amount was then deducted from the initial proceeds of the 3.25% Senior Notes as a whole to arrive at a residual amount, which was allocated to the conversion feature that is classified as equity. The initial fair value of the indebtedness was \$97.8 million resulting in a \$27.2 million allocation to the embedded conversion option. The embedded conversion option was recorded in stockholders' equity and as a debt discount, to be subsequently accreted to interest expense over the term of the 3.25% Senior Notes. Underwriting discounts and commissions and offering expenses totaled \$3.7 million and were allocated between the liability and the equity component in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. As a result, \$2.9 million attributable to the indebtedness was recorded as deferred financing costs in other assets, to be subsequently amortized as interest expense over the term of the 3.25% Senior Notes, and \$0.8 million attributable to the equity component was recorded as a reduction to additional paid-in-capital in stockholders' equity. The company adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" during the first quarter of 2016, utilizing retrospective application as permitted. As a result, the Company reclassified \$2.9 million of debt issuance costs from other assets to reduce the convertible notes as of December 31, 2015.

As of September 30, 2016, the Company had outstanding borrowings of \$101.9 million, and deferred financing costs of \$2.5 million, related to the 3.25% Senior Notes. There are no principal payments due during the term. Annual interest expense on these 3.25% Senior Notes will range from \$9.1 million to \$10.7 million through maturity.

In connection with its merger with TriVascular Technologies, Inc. ("TriVascular") in February 2016, the Company issued 13.6 million shares of common stock as consideration to the former stockholders. As a result of the Company's issuance of such shares in the merger, the quantity of authorized common shares available for future issuance was reduced to a level insufficient to honor all of the potential common shares underlying instruments then outstanding. Such instruments include the conversion options related to the 3.25% Senior Notes and 2.25% Senior Notes, employee stock options, restricted stock units, contingently issuable common stock relating to the prior Nellix acquisition, and stock warrants. The creation of this authorized share deficiency in February 2016 required the Company, during the first quarter of 2016, to separate as a stand-alone derivative the 3.25% Senior Notes conversion option and a portion of the 2.25% Senior Notes conversion option for which no authorized shares are available to effect share settlement in the event of a conversion. Accordingly, in February 2016 the Company re-classed \$24.8 million of the conversion features originally recorded in stockholder's equity of the Senior Notes to derivative liabilities which will be marked to market each period until the Company authorizes sufficient new common shares to alleviate the deficiency.

On June 2, 2016, the Company amended their Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 135,000,000, which is currently at a level sufficient to alleviate the share deficiency. Accordingly, on June 2, 2016, the Company re-classed \$68.6 million of the conversion features of the Senior Notes from derivative liabilities to additional paid-in capital.

For the three and nine months ended September 30, 2016, the Company recorded \$0.0 million and \$43.8 million, respectively as a fair value adjustment of derivative liabilities. The primary factor causing the change in the fair value of the derivative liability was during the period February 3, 2016 through June 2, 2016 when the Company's stock price increased. Adjustments to the fair value of the derivative liabilities are recognized within other income (expense) in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

The value of the derivative liabilities were estimated using a “with” and “without” approach utilizing observable and unobservable inputs causing this to be a Level 3 measurement. In the “with” scenario, the value of the Senior Notes were estimated in a binomial lattice model that considers all terms of the Senior Notes, including the conversion features, with a range of probabilities and assumptions related to the timing and likelihood of the conversion features being exercised by either the Company or the holders of the Senior Notes. In the “without” scenario the value of the Senior Notes absent the conversion

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options were estimated. The difference between the values estimated in the “with” and “without” scenarios represents the value of the derivative liabilities. Changes in the value of the derivative liabilities were driven by changes in the Company’s stock price, expected volatility, credit spreads, and market yields.

Bank of America line of credit

On July 21, 2015, the Company entered into a revolving credit facility with Bank of America, N.A. (“BOA”), whereby the Company could borrow up to \$20.0 million (the “BOA Credit Facility”). All amounts owing under the BOA Credit Facility would become due and payable upon its expiration on July 21, 2017. A sub-feature in the line of credit allowed for the issuance of up to \$10.0 million in letters of credit. The BOA Credit Facility was collateralized by all of the Company’s assets, except its intellectual property. The BOA Credit Facility could be terminated at any time during the two year term by the Company upon three business days’ notice. The BOA Credit Facility usage was priced at a spread over the one, two, three and six month LIBOR rates, and was subject to a covenant related to timely providing publicly reported information and a liquidity covenant tied to “Unencumbered Liquid Assets” (“ULA”) of not less than \$30.0 million. If not in default, the Company had the ability to reduce the ULA covenant requirement by reducing the BOA Credit Facility, with the ULA maintained at 1.5 times the BOA Credit Facility.

The Company terminated the BOA Credit Facility on July 29, 2016 concurrent with its entry into a credit and security agreement with MidCap.

Japan Lifeline Co., Ltd. Credit Facility

On July 4, 2016, the Company entered into a loan agreement with Japan Lifeline Co., Ltd. (“JLL”), the Company’s Japanese distributor, pursuant to which, on July 11, 2016, the Company borrowed \$6.0 million (the “JLL Credit Facility”). All amounts owing under the JLL Credit Facility accrued interest at a rate of 1.5% per annum and would become due and payable upon the earlier of (a) a business day within 30 days following the termination of the Company’s distribution agreement with JLL and (b) the end of the amended Initial Term (as defined in the Distribution Agreement) of the Distribution Agreement. The JLL Credit Facility was collateralized by all of the Company’s assets, except its intellectual property. The Company terminated the JLL Credit Facility on July 29, 2016 concurrent with its entry into a credit and security agreement with MidCap and repaid all amounts previously borrowed and unpaid.

MidCap Credit Facility

On July 29, 2016, the Company entered into a credit and security agreement with MidCap Financial Trust (“MidCap”), as agent for the lenders party thereto and as a lender, whereby the Company may borrow up to the lesser of \$50.0 million or its applicable borrowing base of asset-based revolving loans (the “MidCap Credit Facility”). All amounts owing under the MidCap Credit Facility shall accrue interest at a rate equal to the LIBOR Rate plus four and one tenth percent (4.10%). For purposes of the MidCap Credit Facility, LIBOR Rate means a per annum rate of interest equal to the greater of (a) one half of one percent (0.50%) and (b) the rate determined by MidCap by dividing (i) the Base LIBOR Rate, meaning the base London interbank offer rate for the applicable interest period, by (ii) the sum of one minus the daily average during such interest period of the aggregate maximum reserve requirement then imposed under Regulation D of the Board of Governors of the Federal Reserve System for “Eurocurrency Liabilities” (as defined therein). At September 30, 2016, the interest rate was 4.6%. The Company is subject to other fees in addition to interest on outstanding borrowings (“Other Fees”) related to the MidCap Credit Facility. A balance minimum

of the lesser of \$10.0 million and average borrowing base during the immediately preceding month (“Minimum Balance”) is used in calculating Other Fees as described hereto. The Unused Line Fee is based on the difference between the preceding month’s average outstanding borrowings and the Minimum Balance, multiplied by 0.50% per annum. Additionally, a Minimum Balance Fee is assessed on the positive difference between the Minimum Balance and the preceding month’s average outstanding borrowings, multiplied by the highest, per annum, prevailing interest rate during the month per the MidCap Credit Facility agreement. Lastly, a Collateral Management Fee is assessed on the greater of the preceding month’s average outstanding borrowings or the Minimum Balance, multiplied by 0.50% per annum.

Deferred financing costs directly related to the MidCap Credit Facility such as legal, origination, and professional services fees totaled \$0.9 million. In conjunction with the Company’s adoption of ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs” during the first quarter of 2016, the Company also adopted an update thereof or ASU 2015-15 “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of Credit Arrangements.” As a result, \$0.9 million attributable to the MidCap Credit Facility was recorded as deferred financing costs in other assets, to be subsequently amortized

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as interest expense over the term of the MidCap Credit Facility. The MidCap Credit Facility also contains a lockbox arrangement clause requiring the Company to maintain a lockbox bank account in favor of the MidCap Credit Facility; Company cash receipts remitted to the lockbox bank account are swept on a regular basis to reduce outstanding borrowings related to the MidCap Credit Facility.

As of September 30, 2016, the Company had \$0 in outstanding borrowings and \$0.9 million in deferred financing costs related to the MidCap Credit Facility.

The MidCap Credit Facility includes a subjective acceleration clause that would prompt outstanding borrowings under the credit facility to become immediately due and payable, together with accrued interest and Other Fees. A material adverse change in the Company's business condition, any default in performance or compliance of the terms set in the MidCap Credit Facility, or the inability to repay the outstanding borrowings based on MidCap's discretion, can trigger the subjective acceleration clause.

The MidCap Credit Facility is secured by substantially all of the Company's assets, excluding its intellectual property ("Collateral"), and places customary limitations on indebtedness, liens, distributions, acquisitions, investments, and other activities of the Company in a manner designed to protect the Collateral. The Company could be materially affected if it violates any covenants, as MidCap could declare all outstanding borrowing related to the MidCap Credit Facility, together with accrued interest and Other Fees, to be immediately due and payable. The MidCap Credit Facility is also subject to customary affirmative and negative covenants for asset-based revolving credit facilities, including a minimum net revenue covenant. As of September 30, 2016, the Company was in compliance with all financial covenants. The MidCap Credit Facility is scheduled to terminate on July 29, 2020.

In conjunction with the Company's termination of the BOA Credit Facility and concurrent entry into a credit and security agreement with Midcap in July 2016, the Company entered into a corporate credit card agreement whereby the Company is required to maintain a \$2.0 million deposit in favor of the credit card issuer. The deposit account related to these credit cards will be presented as restricted cash on the Company's Condensed Consolidated Balance Sheet.

7. Revenue by Geographic Region

The Company's revenue by geographic region, was as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
United States	\$36,305 69.7%	\$26,915 70.4%	\$102,457 70.4%	\$80,825 70.7%
Total International	15,817 30.3%	11,316 29.6%	43,005 29.6%	33,555 29.3%
Revenue	\$52,122 100.0%	\$38,231 100.0%	\$145,462 100.0%	\$114,380 100.0%

8. Commitments and Contingencies

(a) Leases

The Company leases its administrative, research, and manufacturing facilities located in Irvine, California, Santa Rosa, California and an administrative office located in Rosmalen, The Netherlands. These facility lease agreements require the Company to pay operating costs, including property taxes, insurance and maintenance. In addition, the

Company has certain equipment under long-term agreements that are accounted for as operating leases. In conjunction with the TriVascular merger, the Company assumed the lease for TriVascular's facility in Santa Rosa, California. The facility is being used for manufacturing, research & development, and administrative purposes and consists of 110,000 square feet under an operating lease scheduled to expire in February 2018, which may be renewed for an additional 5 years, at the Company's option.

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(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

Future minimum payments by year under non-cancelable leases with initial terms in excess of one year were as follows as of September 30, 2016:

Remainder of 2016	\$949
2017	3,747
2018	2,637
2019	2,405
2020	2,504
2021 and thereafter	22,884
Total	\$35,126

Facilities rent expense for the three months ended September 30, 2016 and 2015 was \$0.9 million and \$0.6 million, respectively. For the nine months ended September 30, 2016 and 2015 facilities rent expense was \$2.5 million and \$1.8 million, respectively.

(b) Employment Agreements and Retention Plan

On February 1, 2014, the Company entered into new employment agreements with certain of its executive officers under which payment and benefits would become payable in the event of termination by the Company for any reason other than cause, death or disability or termination by the employee for good reason (collectively, an “Involuntary Termination”) prior to, upon or following a change in control of the Company. The severance payment will generally be in a range of six to eighteen months of the employee’s then current salary for an Involuntary Termination prior to a change in control of the Company, and will generally be in a range of eighteen to twenty-four months of the employee’s then current salary for an Involuntary Termination upon or following a change in control of the Company.

(c) Legal Matters

We are from time to time involved in various claims and legal proceedings of a nature we believe are normal and incidental to a medical device business. These matters may include product liability, intellectual property, employment, and other general claims. Such cases and claims may raise complex factual and legal issues and are subject to many uncertainties, including, but not limited to, the facts and circumstances of each particular case or claim, the jurisdiction in which each suit is brought, and differences in applicable law. We accrue for contingent liabilities when it is probable that a liability has been incurred and the amount can be reasonably estimated. The accruals are adjusted periodically as assessments change or as additional information becomes available.

LifePort Sciences LLC v. Endologix, Inc.

On December 28, 2012, LifePort Sciences, LLC (“LifePort”) filed a complaint against the Company in the U.S. District Court, District of Delaware, alleging that certain of the Company’s products infringe U.S. Patent Nos. 5,489,295, 5,676,696, 5,993,481, 6,117,167, 6,302,906, and 8,192,482, which were alleged to be owned by LifePort. On March 17, 2016, the Company entered into a Settlement and Patent License Agreement with LifePort (the “Settlement Agreement”) whereby LifePort granted the Company license rights to patents in exchange for a settlement of \$4.7 million. The Settlement Agreement resolves this litigation and fully and finally releases the Company and LifePort from any claims arising out of or in connection with the litigation or the subject patents. The Settlement Agreement also contained a covenant not to sue for other patents owned by LifePort. However, since the subject patents were all expired and the Company was not currently using and has no plans to use the other patents owned by LifePort in products that could reach technological feasibility during the covenant not to sue period, there is no alternative future use and the full amount was recorded as settlement costs in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss.

(d) Contract Termination

In the three and nine months ended September 30, 2016, the Company sent notices of termination to certain of its distributors providing for the termination of the respective distribution agreements. In accordance with ASC No. 420 “Exit or Disposal Cost Obligations”, the Company expensed distributor termination costs in the period in which the written notification of termination occurred. As a result, the Company incurred termination costs of \$0 and \$2.6 million for the three and nine months

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

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ended September 30, 2016, respectively. Such termination costs are included in contract termination and business acquisition expenses for the three and nine months ended September 30, 2016.

9. Contingently Issuable Common Stock

On October 27, 2010, the Company entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with Nepal Acquisition Corporation, a wholly-owned subsidiary of the Company (“Merger Sub”), Nellix, Inc. (“Nellix”), certain of Nellix’s stockholders named therein and Essex Woodlands Health Ventures, Inc., as representative of the former Nellix stockholders. On December 10, 2010 (the “Nellix Closing Date”), the Company completed the merger (the “Merger”) of Merger Sub with and into Nellix pursuant to the terms of the Merger Agreement. The purchase price consisted of 3.2 million shares of the Company’s common stock, issuable to the former Nellix stockholders as of the Nellix Closing Date, then representing a value of \$19.4 million. Under the agreement, additional payments, solely in the form of shares of the Company’s common stock (the “Contingent Payment”), could be made upon the achievement of a revenue milestone and a regulatory approval milestone (collectively, the “Nellix Milestones”).

Under the merger agreement, the ultimate value of each Contingent Payment would be determined on the date that each Nellix Milestone is achieved. The number of issuable shares would be established using an applicable per share price, which is subject to a ceiling and/or floor, resulting at the closing of the merger in a potential maximum of 10.2 million shares issuable upon the achievement of the Nellix Milestones. As of the Closing Date, the aggregate fair value of the cash Contingent Payment was estimated to be \$28.2 million.

The Merger Agreement provides that, in addition to the shares of common stock of the Company (the “Common Stock”) issued to the former Nellix stockholders at the closing of the Merger, the former Nellix stockholders were entitled to receive shares of the Common Stock if the Company’s sales of a Nellix product (the “Nellix Product”) outside of the United States exceeded \$10.0 million within a certain time period following the Company’s receipt of CE mark approval for the Nellix Product (the “OUS Milestone”). The aggregate dollar value of the shares of the Common Stock to be issued upon achievement of the OUS Milestone ranged from a high of \$24.0 million, or 6.9 million shares, to a low of \$10.0 million, or 1.3 million shares. The price per share of the Common Stock to be issued upon achievement of the OUS Milestone was subject to a floor of \$3.50 per share and a ceiling of \$7.50 per share.

On June 17, 2014, the Company announced its achievement of the OUS Milestone and the issuance of an aggregate of 2.7 million unregistered shares of the Common Stock (the “OUS Milestone Shares”), plus an amount of cash in lieu of fractional shares, to the former Nellix stockholders. The Company offered and sold the OUS Milestone Shares in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933, as amended (the “Securities Act”). The former Nellix stockholders previously gave representations to the Company regarding their investment intent, experience, financial sophistication, access to information regarding the Company and certain other matters to support the Company’s reasonable belief that it could rely upon the foregoing exemptions from registration pursuant to Section 4(2) of the Securities Act. No underwriting discounts or commissions were or will be paid in conjunction with the issuance of the OUS Milestone Shares. The Company previously filed a Registration Statement on Form S-3 (Registration No. 333-171639) (the “Form S-3”) for the purpose of registering for resale shares of the Common Stock issued or issuable pursuant to the Merger Agreement, including the OUS Milestone Shares. The Securities and Exchange Commission declared the Form S-3 effective on January 18, 2011.

In addition, if the Company receives approval from the FDA to sell the Nellix Product in the United States (the “PMA Milestone”), the Company will issue additional shares of the Common Stock to the former stockholders of Nellix. The dollar value of the shares of the Common Stock to be issued upon achievement of the PMA Milestone will be equal to \$15.0 million (less the dollar value of certain cash payments and other deductions). The price per share of the shares

of the Common Stock to be issued upon achievement of the PMA Milestone is subject to a stock price floor of \$4.50 per share, but not subject to a stock price ceiling.

As of September 30, 2016 the Company's stock price last closed at \$12.80 per share. Thus, had the PMA Milestone been achieved on September 30, 2016 the Contingent Payment would have comprised 1.2 million shares (based on the 30-day average closing stock price ending 5 days prior to the announcement), representing a value of \$15.7 million.

The value of the Contingent Payment is derived using a discounted income approach model, with a range of probabilities and assumptions related to the timing and likelihood of achievement of the PMA Milestone (which include Level 3 inputs - see Note 3(e) and the Company's stock price (Level 1 input) as of the balance sheet date). These varying probabilities and

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ENDOLOGIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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assumptions and changes in the Company's stock price have required fair value adjustments of the Contingent Payment in periods subsequent to the Nellix Closing Date.

The Contingent Payment fair value will continue to be evaluated on a quarterly basis until milestone achievement occurs, or until the expiration of the "earn-out period," as defined within the Nellix purchase agreement. Adjustments to the fair value of the Contingent Payment are recognized within other income (expense) in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

	Fair Value of Contingently Issuable Common Stock
December 31, 2015	\$ 14,700
Fair Value Adjustment of Contingent Payment for the nine months ended September 30, 2016	100
September 30, 2016	\$ 14,800

10. Income Tax Expense

The Company applied an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods. The Company recorded a provision for income taxes of \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2016. The Company's ETR was (1.2)% and (0.6)% for the three and nine months ended September 30, 2016. The Company's ETR for the three and nine months ended September 30, 2016 differs from the U.S. federal statutory tax rate of 34% primarily as a result of nondeductible expenses (including the Nellix Contingent Payment and mark to market adjustment of derivative liabilities), state income taxes, foreign income taxes, and the impact of a full valuation allowance on its deferred tax assets.

The Company has evaluated the available evidence supporting the realization of its deferred tax assets, including the amount and timing of future taxable income, and has determined that it is more likely than not that its net deferred tax assets will not be realized in the U.S. and certain foreign jurisdictions. Due to uncertainties surrounding the realization of the deferred tax assets, the Company maintains a full valuation allowance against substantially all deferred tax assets. If/when the Company determines that it will be able to realize some portion or all of its deferred tax assets, an adjustment to its valuation allowance on its deferred tax assets would have the effect of increasing net income in the period(s) such determination is made.

11. Restructuring Charges

In the nine months ended September 30, 2016, the Company recorded \$8.6 million in restructuring costs within operating expenses related to focused reductions of its workforce. The Company began substantially formulating plans around this workforce reduction during the first quarter of 2016 in conjunction with its merger of TriVascular. The targeted reductions and other restructuring activities were initiated to provide efficiencies and realign resources as well as to allow for continued investment in strategic areas and drive growth. The Company expects to incur a total of \$9.0 million in restructuring charges upon the completion of the plan, which represents the Company's best estimate as of September 30, 2016. The recognition of restructuring charges requires that the Company make certain judgments and estimates regarding the nature, timing and amount of costs associated with the planned reductions of workforce.

At the end of each reporting period, the Company will evaluate the remaining accrued balance to ensure that no excess accruals are retained and the utilization of the provisions are for their intended purpose in accordance with developed plans. The following table reflects the movement of activity of the restructuring reserve for the nine months ended September 30, 2016:

	One-time Termination Benefits
Accrual balance as of December 31, 2015	\$ —
Restructuring charges	8,612
Utilization	(7,377)
Accrual balance as of September 30, 2016	\$ 1,235

The accrual balance as of September 30, 2016 is classified within accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheet.

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(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

12. TriVascular Merger

On February 3, 2016, the Company completed its merger with TriVascular pursuant to the Agreement and Plan of Merger (the “Merger Agreement”), dated October 26, 2015, by and among Endologix, TriVascular and Teton Merger Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of Endologix (“Merger Sub”). Pursuant to the terms of the Merger Agreement, Endologix acquired all of TriVascular’s outstanding capital stock through the merger of Merger Sub with and into TriVascular (the “Merger”), with TriVascular surviving the Merger as a wholly-owned subsidiary of Endologix. The Company completed the merger in order to become the innovation leader with broad clinical indications for the treatment of AAA, leverage the combined company’s commercial capabilities, and provide an accelerated path to profitability. The total purchase consideration given related to the acquisition follows:

Cash consideration	\$84,634
Common stock consideration	100,812
Fair value of assumed TriVascular stock warrants	44
Total purchase consideration	\$185,490

Common stock consideration consisted of 13,586,503 shares of Endologix common stock, worth \$100.8 million based on the market value of \$7.42 per share as of the effective date of the Merger on February 3, 2016.

In connection with the Merger, the Company assumed stock warrants, originally issued by TriVascular, and converted them to Endologix stock warrants. The fair value of the stock warrants represents a component of the total consideration for the Merger. Stock warrants assumed were valued using the Black-Scholes option pricing model as of the effective date of the Merger.

The acquisition was recorded by allocating the costs of the net assets acquired based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. The fair values were based on management’s analysis, including work performed by third-party valuation specialists. The following presents the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed on February 3, 2016 (in thousands):

Cash and cash equivalents	\$24,012
Short-term investments	3,008
Accounts receivable	5,593
Inventories	17,765
Prepaid expenses and other current assets	1,895
Property and equipment	3,152
Intangible assets	46,200
Other assets	317
Accounts payable	(2,214)
Accrued liabilities and other	(6,367)
Notes payable	(61)
Net assets acquired	\$93,300
Goodwill	\$92,190
Total preliminary purchase consideration	\$185,490

Any changes in the estimated fair values of the net assets recorded for this business combination upon the finalization of more detailed analyses of the facts and circumstances that existed at the date of the transaction will change the

allocation of the purchase price. Any subsequent changes to the purchase allocation during the measurement period that are material will be recorded in the reporting period in which the adjustment amounts are determined in accordance with ASU 2015-16.

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The goodwill is primarily attributable to strategic opportunities that arose from the acquisition of TriVascular, such as broadening the product portfolio for the treatment of AAA and leveraging the combined company's technology and commercial capabilities. The goodwill is not expected to be deductible for tax purposes. The changes in the carrying amount of goodwill for the nine months ended September 30, 2016 are as follows (in thousands):

Balance at January 1, 2016	28,685
Goodwill acquired from the Merger	92,190
Foreign currency translation adjustment	42
Balance at September 30, 2016	\$ 120,917

During the quarter ended September 30, 2016, the Company revised the opening net assets acquired and goodwill by \$205 thousand, which comprised of the following: an increase in accounts receivable of \$30 thousand; an increase in accrued liabilities and other of \$192 thousand; and a decrease in inventories of \$43 thousand as a result of gathering additional information during the measurement period.

During the nine months ended September 30, 2016, the Company revised the opening net assets acquired and goodwill by \$27,201 thousand, which comprised of the following: an increase in inventories of \$219 thousand; an increase in prepaid expenses and other current assets of \$77 thousand; an increase in accounts receivable of \$30 thousand; and an increase in accrued liabilities and other of \$556 thousand as a result of gathering additional information during the measurement period. The Company also revised the initial values of intangible assets by decreasing them \$26,971 thousand as a result of switching from utilizing publicly available benchmarking information to determine the fair value of the intangible assets to primarily utilizing an income method based on forecasts of expected future cash flows. During the three months ended June 30, 2016, the Company recorded an adjustment to the amortization of intangible assets of \$266 thousand, comprising of a \$217 thousand and \$49 thousand decrease within cost of goods sold and marketing and sales expense, respectively, in the Condensed Consolidated Statement of Operations and Comprehensive Loss, that would have been recorded during the three months ended March 31, 2016, if the adjustment to the intangible assets had been recognized as of the date of the Merger.

Trade payables, as well as other current and non-current assets and liabilities, were valued at the existing carrying values as they represented the fair value of those items at the acquisition date, based on management's judgments and estimates. Trade receivables included gross contractual amounts of \$5.8 million and our best estimate of \$0.2 million which represents contractual cash flows not expected to be collected at the acquisition date.

The fair value of property, plant and equipment utilized a combination of the cost and market approaches, depending on the characteristics of the asset classification. Of the \$46.2 million of acquired intangible assets, \$7.5 million was assigned to customer relationships (10 year life), \$27.5 million was assigned to developed technology (11 year life), and \$11.2 million was assigned to in-process research and development.

Due to the fact that the TriVascular acquisition has just recently occurred, the magnitude of the transaction, and the significant information to be obtained and analyzed, some of which resides in foreign jurisdictions, the Company's fair value estimates for the purchase price allocation are preliminary and may change during the allowable measurement period, which is up to the point the Company obtains and analyzes the information that existed as of the date of the acquisition necessary to determine the fair values of the assets acquired and liabilities assumed, but in no case to exceed more than one year from the date of acquisition. As of September 30, 2016, the Company had not finalized the determination of fair values allocated to property, plant and equipment, identifiable intangible assets, inventory, other assets, deferred taxes, goodwill, tax uncertainties, income taxes payable, and other liabilities. Any changes in the fair values of the assets acquired and liabilities assumed during the measurement period may result in material adjustments to goodwill.

Pro Forma Condensed Combined Financial Information (Unaudited)

The following unaudited pro forma combined financial information summarizes the results of operations for the periods indicated as if the TriVascular merger had been completed as of January 1, 2015. Pro forma information reflects adjustments that

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are expected to have a continuing impact on our results of operations and are directly attributable to the merger. The unaudited pro forma results include adjustments to reflect, among other things, the amortization of the inventory step-up, direct transaction costs relating to the acquisition, the incremental intangible asset amortization to be incurred based on the preliminary values of each identifiable intangible asset, and to eliminate interest expense related to legacy TriVascular's former loans, which was repaid upon completion of the TriVascular merger. The pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the merger had occurred as of January 1, 2015 or that may be obtained in the future, and do not reflect future synergies, integration costs, or other such costs or savings.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Pro forma net sales	\$52,122	\$47,686	\$148,133	\$141,593
Pro forma net loss from continuing operations	(14,941)	(25,639)	(127,026)	(83,056)
Pro forma basic and diluted net loss per share	\$(0.18)	\$(0.31)	\$(1.55)	\$(1.02)

Included in the Condensed Consolidated Statement of Operations and Comprehensive Loss are net sales from products acquired as part of the TriVascular merger of \$11.0 million and \$28.2 million for the three and nine months ended September 30, 2016, respectively. Net losses included in the Condensed Consolidated Statement of Operations and Comprehensive Loss from the TriVascular operations for the three and nine months ended September 30, 2016 have not been reported as it is impracticable to do so given the integration and other efficiency and cost saving measures in process during the nine months ended September 30, 2016.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Concerning Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward looking statements are intended to qualify for the safe harbor established by the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by the use of forward-looking terminology such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or comparable terminology, or by discussions of strategies, opportunities, plans or intentions. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements. We have based these forward-looking statements largely on our current expectations based on information currently available to us and projections about future events and trends affecting the financial condition of our business. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Actual results could differ materially from those projected in forward-looking statements as a result of the following factors, among others:

- risks associated with our recently completed merger with TriVascular Technologies, Inc. ("TriVascular"), including but not limited to the failure to realize anticipated revenue, operating and cost synergies and other potential benefits of the merger; costs, fees, expenses and charges associated with the merger which may negatively impact our financial condition and operating results; and business disruption after the merger, including adverse effects on employee retention and business relationships with suppliers, customers and other business partners;
- failure to realize the anticipated benefits from previous business combination transactions, including our acquisition of Nellix, Inc. ("Nellix");
- continued market acceptance, use and endorsement of our products;
- quality problems with our products;
- consolidation in the health care industry;
- the success of our clinical trials relating to products under development;
- our ability to maintain strong relationships with certain key physicians;
- continued growth in the number of patients qualifying for treatment of abdominal aortic aneurysms through our products;
- our ability to effectively compete with the products offered by our competitors;
- the level and availability of third party payor reimbursement for our products;
- our ability to effectively develop new or complementary products and technologies;
- our ability to manufacture our endovascular systems to meet demand;
- changes to our international operations including currency exchange rate fluctuations;
- our ability to effectively manage our business and keep pace with our anticipated growth;
- our ability to develop and retain a direct sales force in the United States and select European countries;
- the nature of and any changes to domestic and foreign legislative, regulatory and other legal requirements that apply to us, our products, our suppliers and our competitors;
- the timing of and our ability to obtain and maintain any required regulatory clearances and approvals;
- our ability to protect our intellectual property rights and proprietary technologies;
- our ability to operate our business without infringing the intellectual property rights and proprietary technology of third parties;
- product liability claims and litigation expenses;

reputational damage to our products caused by the use, mis-use or off-label use or off-label use of our products or government or voluntary recalls of our products;

- our utilization of single source supplier for specialized components of our product lines;
- our ability to attract, retain, and motivate qualified personnel;
- our ability to make future acquisitions and successfully integrate any such future-acquired businesses;
- our ability to maintain adequate liquidity to fund our operational needs and research and developments expenses; and
- general macroeconomic and world-wide business conditions.

Our actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied from such forward-looking statements. Important factors that could cause our actual results, performance or achievements to differ materially from our expectations are disclosed in our Annual Report on Form 10-K for the year ended

December 31, 2015, filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 29, 2016, including but not limited to those factors discussed in “Management's Discussion and Analysis of Financial Condition and Results of Operations,” “Risk Factors,” “Consolidated Financial Statements” and “Notes to Consolidated Financial Statements.” All subsequent written and oral forward-looking statements attributable to us or by persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

Our forward-looking statements speak only as of the date each such statement is made. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law or the rules and regulations of the SEC and The NASDAQ Stock Market, LLC.

Overview

Our Business

Our corporate headquarters is located in Irvine, California and we have manufacturing facilities located in Irvine and Santa Rosa, California. We develop, manufacture, market, and sell innovative medical devices for the treatment of aortic disorders. Our principal products are intended for the treatment of abdominal aortic aneurysms ("AAA"). Our AAA products are built on one of two platforms: (a) traditional minimally-invasive endovascular repair ("EVAR") or (b) endovascular sealing ("EVAS"), our innovative solution for sealing the aneurysm sac while maintaining blood flow through two blood flow lumens.

We sell our products through our direct U.S. and European sales forces and third-party international distributors and agents in other parts of the world.

See Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2015, entitled "Business," for a discussion of:

♣Market Overview and Opportunity

⦿Our Products

♣Manufacturing and Supply

♣Marketing and Sales

⦿Competition

♣Product Developments and Clinical Trials

When used in this report, “we,” “our,” “us” or “Endologix,” refer to Endologix, Inc. and our consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires. Endologix®, AFX®, Nellix®, IntuiTrak® and Ovation® are registered trademarks of Endologix, Inc., and VELA™, ActiveSeal™, Duraply® and OvationiX™ and the respective product logos are trademarks of Endologix, Inc. Updates to our products, manufacturing and product developments as a result of the TriVascular merger are discussed below.

Recent Highlights of Our Product Development Initiatives, Clinical Trials and Regulatory Approvals

Nellix

In March 2016, we announced that the first two patients with AAAs in Japan had been treated with the Nellix® EndoVascular Aneurysm Sealing System (the "Nellix EVAS System"). The patients were treated under Japan's "compassionate use" system, which grants access to physicians for use of medical treatments not yet approved in Japan for patients who are diagnosed with advanced diseases that are not responsive to existing treatment options.

In April 2016, we announced achievement of CE Mark approval of the next-generation Nellix EVAS System. The new Nellix EVAS system will be gradually introduced in Europe and other markets. In March 2016, we submitted our final premarket approval ("PMA") modules to the U.S. Food and Drug Administration (the “FDA”) and completed our 100-day PMA meeting with the FDA. The FDA has requested additional information and indicated that we may need to go to an Advisory Committee Panel. If we do have to go to an Advisory Committee Panel, we

anticipate that the timeline for PMA approval for the Nellix EVAS System may extend into the third quarter of 2017. We are working collaboratively and in a timely manner with the FDA to provide the required information, and we remain confident that we will receive PMA approval for Nellix EVAS System based upon the IDE clinical results, data from other international studies and our worldwide experience, which now includes over 7,000 patients. On December 10, 2010, we completed our acquisition of Nellix. Using the technology we acquired in the Nellix acquisition, we developed the Nellix EVAS System, a next-generation device, to treat infrarenal AAA. We have the following trials in process to build independent and collective clinical and economic evidence of clinical safety and effectiveness:

• **EVAS FORWARD Global Registry** - This study is designed to provide real world clinical results to demonstrate the effectiveness and broad applicability of the Nellix EVAS System. The first phase of the registry included 300 patients

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enrolled in up to 30 international centers. The first patient in the registry was treated in October 2013. In September 2014, we announced completion of patient enrollment in the Nellix EVAS FORWARD global registry. In April 2016, we announced updated data on 300 patients with a mean follow-up of 20 months along with results from a sub-analysis of 72 patients with concomitant AAA and iliac artery aneurysms that could not have been treated within the indications for use in traditional EVAR devices.

EVAS FORWARD IDE - Pivotal clinical trial to evaluate the safety and effectiveness of the Nellix EVAS System. The study is a prospective single arm registry which enrolled 179 patients at 29 centers in the U.S. and Europe. In November 2014, we completed enrollment in the EVAS FORWARD IDE and submitted the one year results to the FDA in March 2016. In May 2016, we announced the results of the one (1) year clinical data from the EVAS FORWARD IDE study that demonstrate that the Nellix EVAS System met the study primary endpoints for major adverse events at 30 days (safety) and Treatment Success at one year (effectiveness).

ASCEND Registry - In April 2016, we announced the first data presentation with one-year outcomes from the ASCEND Registry (Aneurysm Study for Complex AAA: Evaluation of Nellix Durability), a physician-initiated registry of the Nellix EVAS System used with aortic branch stent grafts for the treatment of patients with complex AAAs.

AFX

In September 2014, we announced a new clinical study called LEOPARD (Looking at EVAR Outcomes by Primary Analysis of Randomized Data). The study will provide a real-world comparison of the AFX system versus other commercially available EVAR devices. The LEOPARD study is designed to randomize and enroll up to 800 patients at 80 leading centers throughout the United States and commenced in the first quarter of 2015. The centers will be a mix of our current and new customers, with each investigator selecting one competitive device to randomize against AFX. The LEOPARD study is being led by an independent steering committee of leading physicians who will be involved with the study and responsible for presenting the results over the five-year follow-up period.

In December 2015, we announced that the AFX® Endovascular AAA System for the treatment of abdominal aortic aneurysms has received Shonin approval from the Japanese Ministry of Health, Labor and Welfare (MHLW).

In February 2016, we announced the completion of the first U.S. commercial implant of the Company's AFX®2 Bifurcated Endograft System ("AFX2"). AFX2 reduces procedure steps for the delivery and deployment of the bifurcated endograft. AFX2 also facilitates percutaneous endovascular aneurysm repair, or PEVAR, by providing the lowest profile contralateral access through a 7F introducer. These improvements bring together our ActiveSeal™ technology, DuraPly™ ePTFE graft material and VELA™ Proximal Endograft, into an integrated new EVAR system.

Ovation

In October 2014, TriVascular initiated the LIFE Study to illustrate the potential advantages of a fast tract protocol including PEVAR, local anesthesia, no time in ICU and a one night stay in the hospital with the Ovation System. In May 2016, we announced the completion of enrollment of 250 patients at 34 sites participating in the LIFE Study. In September 2016, we announced the results of the one-month clinical data from the LIFE Study that demonstrate that the Ovation System met the study primary endpoint for major adverse events at 30 days.

In early 2015, TriVascular initiated the LUCY Study which will evaluate the clinical benefits associated with EVAR using the Ovation System in patients with challenging anatomies including small access vessels. We expect to complete enrollment of the planned 225 patients around the end of 2016.

In February 2015, the FDA approved the next generation Ovation iX™ Iliac Stent Graft for the Ovation System, and in July 2015, the FDA approved the Ovation iX™ Abdominal Stent Graft System. In September 2015, the first

patients were treated with the Ovation iX Abdominal Stent Graft System in Europe, and in August 2015, TriVascular initiated the launch of the Ovation iX System in the United States.

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Characteristics of Our Revenue and Expenses

Revenue

We derive revenue from sales of our EVAR and EVAS products (including extensions and accessories) to hospitals upon completion of AAA repair procedures, or from sales to distributors upon title transfer (which is typically at shipment), provided our other revenue recognition criteria have been met.

Cost of Goods Sold

Cost of goods sold includes compensation (including stock-based compensation) and benefits of production personnel and production support personnel. Cost of goods sold also includes depreciation expense for production equipment, production materials and supplies expense, allocated facilities-related expenses and certain direct costs such as shipping.

Research and Development

Research and development expenses consist of compensation (including stock-based compensation) and benefits for research and development personnel, materials and supplies, research and development consultants, outsourced and licensed research and development costs and allocated facilities-related costs. Our research and development activities primarily relate to the development and testing of new devices and methods to treat aortic disorders.

Clinical and Regulatory

Clinical and regulatory expenses consist of compensation (including stock-based compensation) and benefits for clinical and regulatory personnel, regulatory and clinical payments related to studies, regulatory costs related to registration and approval activities and allocated facilities-related costs. Our clinical and regulatory activities primarily relate to gaining regulatory approval for the commercialization of our devices.

Marketing and Sales

Marketing and Sales expenses primarily consist of compensation (including stock-based compensation) and benefits for our sales force, clinical specialists, internal sales support functions and marketing personnel. It also includes costs attributable to marketing our products to our customers and prospective customers.

General and Administrative

General and administrative expenses primarily include compensation (including stock-based compensation) and benefits for personnel that support our general operations such as information technology, executive management, financial accounting, and human resources. General and administrative expenses also include bad debt expense, patent and legal fees, financial audit fees, insurance, recruiting fees, other professional services, the federal Medical Device Excise Tax and allocated facilities-related expenses.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. While management believes these estimates are reasonable and consistent, they are by their very nature, estimates of amounts that will depend on future events. Accordingly, actual results could differ from these estimates. Our Audit Committee periodically reviews our significant accounting policies.

For a description of our critical accounting policies and estimates, please refer to the “Critical Accounting Policies and Estimates” section in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes in any of our critical accounting policies and estimates during the three and nine months ended September 30, 2016.

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Results of Operations

Operations Overview - Three and Nine Months Ended September 30, 2016 versus 2015

The following table presents our results of continuing operations and the related percentage of the period's revenue (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
Revenue	\$52,122	100.0%	\$38,231	100.0%	\$145,462	100.0%	\$114,380	100.0%
Cost of goods sold	15,191	29.1%	11,195	29.3%	51,131	35.2%	36,306	31.7%
Gross profit	36,931	70.9%	27,036	70.7%	94,331	64.8%	78,074	68.3%
Operating expenses:								
Research and development	8,236	15.8%	5,459	14.3%	23,796	16.4%	17,683	15.5%
Clinical and regulatory affairs	3,759	7.2%	3,956	10.3%	11,664	8.0%	11,003	9.6%
Marketing and sales	26,007	49.9%	19,662	51.4%	82,749	56.9%	59,103	51.7%
General and administrative	9,714	18.6%	7,293	19.1%	29,869	20.5%	21,432	18.7%
Restructuring costs	498	1.0%	—	—%	8,612	5.9%	—	—%
Settlement costs	—	—%	—	—%	4,650	3.2%	—	—%
Contract termination and business acquisition expenses	(49)	(0.1)%	—	—%	5,856	4.0%	—	—%
Total operating expenses	48,165	92.4%	36,370	95.1%	167,196	114.9%	109,221	95.5%
Loss from operations	(11,234)	(21.6)%	(9,334)	(24.4)%	(72,865)	(50.1)%	(31,147)	(27.2)%
Total other income (expense)	(3,837)	(7.4)%	(1,561)	(4.1)%	(56,167)	(38.6)%	(3,809)	(3.3)%
Net loss before income tax expense	(15,071)	(28.9)%	(10,895)	(28.5)%	(129,032)	(88.7)%	(34,956)	(30.6)%
Income tax expense	(174)	(0.3)%	(22)	(0.1)%	(720)	(0.5)%	(175)	(0.2)%
Net loss	\$(15,245)	(29.2)%	\$(10,917)	(28.6)%	\$(129,752)	(89.2)%	\$(35,131)	(30.7)%

Comparison of the Three Months Ended September 30, 2016 versus 2015

Revenue

Three Months
Ended
September 30,
2016 2015
(in thousands)

Variance Percent Change

Revenue \$52,122 \$38,231 \$13,891 36.3%

US Sales. Net sales totaled \$36.3 million in the three months ended September 30, 2016, a 34.9% increase from \$26.9 million in three months ended September 30, 2015, primarily due to sales contributed from products acquired as part of the TriVascular merger.

International Sales. Net sales of products in our international regions totaled \$15.8 million in the three months ended September 30, 2016, a 39.8% increase from \$11.3 million in the three months ended September 30, 2015, primarily due to sales contributed from products acquired as part of the TriVascular merger. Strong AFX growth in Japan and Latin America also drove the increase as compared to the corresponding period of last year.

Net sales contributed from products acquired as part of the TriVascular merger totaled \$11.0 million in the three months ended September 30, 2016.

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Cost of Goods Sold, Gross Profit, and Gross Margin

	Three Months Ended September 30,			
	2016	2015	Variance	Percent Change
	(in thousands)			
Cost of goods sold	\$15,191	\$11,195	\$ 3,996	35.7 %
Gross profit	36,931	27,036	9,895	36.6 %
Gross margin percentage (gross profit as a percent of revenue)	70.9	% 70.7	%	

Gross margin for the three months ended September 30, 2016 increased to 70.9% from 70.7% for the three months ended September 30, 2015. The increase in cost of goods sold is largely due to the impact of purchase price accounting for inventory and intangible assets acquired in the TriVascular merger as well as due to the increase in sales.

Operating Expenses

	Three Months Ended September 30,			
	2016	2015	Variance	Percent Change
	(in thousands)			
Research and development	\$8,236	\$5,459	\$ 2,777	50.9%
Clinical and regulatory affairs	3,759	3,956	(197)	(5.0)%
Marketing and sales	26,007	19,662	6,345	32.3%
General and administrative	9,714	7,293	2,421	33.2%
Restructuring costs	498	—	498	100.0%
Contract termination and business acquisition expenses	(49)	—	(49)	100.0%

Research and Development. The \$2.8 million increase in research and development expenses was attributable to increased product development investments related to Ovation.

Clinical and Regulatory Affairs. The decrease in clinical and regulatory affairs expenses are due to decreased regulatory fees and clinical activities.

Marketing and Sales. The \$6.3 million increase in marketing and sales expenses for the three months ended September 30, 2016, as compared to the prior year period, was driven by the integration of the TriVascular sales and marketing organization.

General and Administrative. The \$2.4 million increase in general and administrative expenses is primarily attributable to an increase in headcount related to the TriVascular merger.

Restructuring Costs. The \$0.5 million increase in restructuring costs for the three months ended September 30, 2016, as compared to the prior year period is comprised of costs associated with TriVascular executive change in control agreements, severance and retention bonuses as a result of the TriVascular merger.

Other income (expense), net

	Three Months Ended September 30,			
	2016	2015	Variance	Percent Change
	(in thousands)			
Other income (expense), net	\$(3,837)	\$(1,561)	\$(2,276)	>100%

Other Income (Expense), Net. Other expense of \$3.8 million for the three months ended September 30, 2016 consists mainly of interest expense associated with our convertible notes. Other expense for the three months

ended September 30, 2015 includes interest expense associated with our convertible note of \$1.5 million.

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Provision for Income Taxes

Three
Months

Ended

September

30,

2016 2015 VariancePercent Change

(in

thousands)

Income tax expense \$(174)\$(22)\$ (152)>100%

Our income tax expense was \$174 thousand and our effective tax rate was (1.2)% for the three months ended September 30, 2016 due to our tax positions in various jurisdictions. During the three months ended September 30, 2016 and 2015, we had operating legal entities in the U.S., Canada, Italy, New Zealand, Poland and the Netherlands (including registered sales branches in certain countries in Europe).

Comparison of the Nine Months Ended September 30, 2016 versus 2015

Revenue

Nine Months

Ended September

30,

2016 2015 VariancePercent Change

(in thousands)

Revenue\$ 145,462\$ 114,380\$ 31,082 27.2%

US Sales. Net sales totaled \$102.5 million in the nine months ended September 30, 2016, a 26.8% increase from \$80.8 million in the nine months ended September 30, 2015, primarily due to sales contributed from products acquired as part of the TriVascular merger.

International Sales. Net sales of products in our international regions totaled \$43.0 million in the nine months ended September 30, 2016, a 28.2% increase from \$33.6 million in the nine months ended September 30, 2015, primarily due to sales contributed from products acquired as part of the TriVascular merger. Strong AFX growth in Japan and Latin America also drove the increase as compared to the corresponding period of last year. Our international sales for the nine months ended September 30, 2016 included an unfavorable foreign currency impact of approximately \$0.4 million when compared to the net sales for nine months ended September 30, 2015, which had a 1 percentage point unfavorable impact on the growth rate representing constant currency growth of 29%.

Net sales contributed from products acquired as part of the TriVascular merger totaled \$28.2 million in the nine months ended September 30, 2016.

Cost of Goods Sold, Gross Profit, and Gross Margin

Nine Months Ended

September 30,

2016 2015

VariancePercent Change

(in thousands)

Cost of goods sold \$51,131 \$36,306 \$ 14,825 40.8%

Gross profit 94,331 78,074 16,257 20.8%

Gross margin percentage (gross profit as a percent of revenue) 64.8 %68.3 %

Gross margin for the nine months ended September 30, 2016 decreased to 64.8% from 68.3% for the nine months ended September 30, 2015. The increase in cost of goods sold, and corresponding decrease to the gross margin percentage, is largely due to the impact of purchase price accounting for inventory and intangible assets acquired in

the TriVascular merger as well as due to the increase in sales.

Operating Expenses

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	Nine Months Ended September 30, 2016 2015 VariancePercent Change (in thousands)			
Research and development	\$23,796	\$17,683	\$ 6,113	34.6%
Clinical and regulatory affairs	11,664	11,003	661	6.0%
Marketing and sales	82,749	59,103	23,646	40.0%
General and administrative	29,869	21,432	8,437	39.4%
Restructuring costs	8,612	—	8,612	100.0%
Settlement costs	4,650	—	4,650	100.0%
Contract termination and business acquisition expenses	5,856	—	5,856	100.0%

Research and Development. The \$6.1 million increase in research and development expenses was attributable to increased product development investments related to Ovation.

Clinical and Regulatory Affairs. The \$0.7 million increase in clinical and regulatory affairs expenses is due to increased regulatory fees and costs to support ongoing clinical activities, such as LUCY, EVAS FORWARD IDE and LEOPARD.

Marketing and Sales. The \$23.6 million increase in marketing and sales expenses for the nine months ended September 30, 2016, as compared to the prior year period, was driven by the integration of the TriVascular sales and marketing organization.

General and Administrative. The \$8.4 million increase in general and administrative expenses is primarily attributable to an increase in headcount related to the TriVascular merger, higher professional fees and stock-based compensation.

Restructuring Costs. The \$8.6 million increase in restructuring costs for the nine months ended September 30, 2016 is comprised of costs associated with TriVascular executive change in control agreements, severance and retention bonuses as a result of the TriVascular merger.

Settlement Costs. The \$4.7 million in settlement costs for the nine months ended September 30, 2016 is a result of the LifePort settlement.

Contract Termination and Business Acquisition Expenses. The \$5.9 million in contract termination and business acquisition expenses for the nine months ended September 30, 2016, was primarily related to termination of some of our international distributors as well as transaction related expenses associated with the TriVascular merger.

Other income (expense), net

	Nine Months Ended September 30, 2016 2015 VariancePercent Change (in thousands)			
Other income (expense), net	\$(56,167)	\$(3,809)	\$(52,358)	>100%

Other Income (Expense), Net. Other expense for the nine months ended September 30, 2016 consists mainly of interest expense of \$11.7 million, the change in fair value of derivative of \$43.8 million, foreign currency loss of \$0.8 million and a non-cash expense of \$0.1 million which reflects an increase in the fair value of the Nellix Contingent consideration. Other expense for the nine months ended September 30, 2015 includes interest expense associated with our convertible note of \$4.5 million, foreign currency gains of \$0.6 million and a non-cash expense of \$0.2 million related to the fair value of the Nellix contingent consideration.

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Provision for Income Taxes

Nine Months

Ended

September 30,

2016 2015 Variance Percent Change

(in thousands)

Income tax expense \$(720) \$(175) \$ (545) >(100%)

Our income tax expense was \$720 thousand and our effective tax rate was (0.6)% for the nine months ended September 30, 2016 due to our tax positions in various jurisdictions. The change in expense for the nine months ending September 30, 2016 versus the nine months ending September 30, 2015 is primarily due to discrete events in our foreign jurisdictions including return to provision adjustments. During the nine months ended September 30, 2016 and 2015, we had operating legal entities in the U.S., Canada, Italy, New Zealand, Poland and the Netherlands (including registered sales branches in certain countries in Europe).

Liquidity and Capital Resources

The chart provided below summarizes selected liquidity data and metrics as of September 30, 2016, December 31, 2015, and September 30, 2015:

	September 30, 2016	December 31, 2015	September 30, 2015
	(in thousands, except financial metrics data)		
Cash and cash equivalents	\$22,022	\$ 124,553	\$ 35,404
Marketable securities	\$38,974	\$ 52,768	\$ 32,891
Accounts receivable, net	\$37,356	\$ 28,531	\$ 27,158
Total current assets	\$148,463	\$ 236,412	\$ 132,292
Total current liabilities	\$60,087	\$ 50,855	\$ 32,967
Working capital surplus (a)	\$88,376	\$ 185,557	\$ 99,325
Current ratio (b)	2.5	4.6	4.0
Days sales outstanding ("DSO") (c)	66	67	65
Inventory turnover (d)	1.4	1.8	1.4

(a) total current assets minus total current liabilities as of the corresponding balance sheet date.

(b) total current assets divided by total current liabilities as of the corresponding balance sheet date.

(c) net accounts receivable at period end divided by revenue for the current period multiplied by the number of days in the period.

(d) cost of goods sold divided by the average inventory balance for the corresponding period.

Operating Activities

In the nine months ended September 30, 2016, our operating activities used \$60.1 million in cash. This was primarily the result of a net loss of \$129.8 million, non-cash operating expenses of \$68.4 million and changes in operating assets and liabilities of \$1.3 million. In the nine months ended September 30, 2015, our operating activities used \$18.3 million in cash. This was primarily the result of a net loss of \$35.1 million, net non-cash operating expenses of \$14.4 million and changes in operating assets and liabilities of \$2.4 million.

During the nine months ended September 30, 2016 and 2015, our cash collections from customers totaled \$144.3 million and \$114.4 million, respectively, representing 99.2% and 100.0% of reported revenue for the same periods.

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2016 was \$45.8 million, as compared to cash provided by investing activities of \$23.3 million in the prior year period. For the nine months ended September 30, 2016, cash used in investing activities consisted of \$60.6 million used for the acquisition of TriVascular, \$21.0 million used to purchase marketable

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securities and \$2.1 million used for machinery and equipment purchases. This is offset by proceeds from the maturities of marketable securities of \$37.9 million. For the nine months ended September 30, 2015, cash provided by investing was \$23.3 million and consisted of \$79.3 million in maturities of marketable securities; offset by \$52.4 million used to purchase marketable debt securities, and \$3.6 million used for machinery and equipment purchases.

Financing Activities

Cash provided by financing activities was \$3.2 million for the nine months ended September 30, 2016, as compared to cash provided by financing activities of \$4.1 million in the prior year period. For the nine months ended September 30, 2016, cash provided by financing activities consisted of \$4.3 million from the exercise of stock options and proceeds from sales of common stock under our employee stock purchase plan, offset by \$0.9 million used to pay deferred financing costs and \$0.1 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period. For the nine months ended September 30, 2015, cash provided by financing activities consisted of proceeds of \$4.4 million from the exercise of stock options and proceeds from sales of common stock under our employee stock purchase plan, offset by \$0.3 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period.

Credit Arrangements

See Note 6 of the Notes to the Condensed Consolidated Financial Statements.

Future Capital Requirements

We believe that the future growth of our business will depend upon our ability to successfully develop new technologies for the treatment of aortic disorders and successfully bring these technologies to market. We expect to incur significant expenditures in completing product development and clinical trials.

The timing and amount of our future capital requirements will depend on many factors, including:

- the need for working capital to support our sales growth;
- the need for additional capital to fund future development programs;
- the need for additional capital to fund our sales force expansion;
- the need for additional capital to fund strategic acquisitions;
- our requirements for additional facility space or manufacturing capacity;
- our requirements for additional information technology infrastructure and systems; and
- adverse outcomes from potential litigation and the cost to defend such litigation.

We believe that our world-wide cash resources are adequate to operate our business. We presently have several operating subsidiaries and branches outside of the U.S. As of September 30, 2016, these subsidiaries and branches held an aggregate of \$7.6 million in foreign bank accounts to fund their local operations. A portion of these balances relate to undistributed earnings, and are deemed by management to be permanently reinvested in the corresponding country in which our subsidiary operates. Management has no present or planned intention to repatriate foreign earnings into the U.S. However, in the event that we require additional funds in the U.S. and must repatriate any foreign earnings to meet those needs, we would then need to accrue, and ultimately pay, incremental income tax expenses on such “deemed dividend,” unless we then had sufficient net operating losses to offset this potential tax liability.

In the event we require additional financing in the future, it may not be available on commercially reasonable terms, if at all. Even if we are able to obtain financing, it may cause substantial dilution (in the case of an equity financing), or may contain burdensome restrictions on the operation of our business (in the case of debt financing). If we are not able to obtain required financing, we may need to curtail our operations and/or our planned product development.

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Contractual Obligations

Contractual obligation payments by year with initial terms in excess of one year were as follows as of September 30, 2016 (in thousands):

	Payments due by period						
Contractual Obligations	Total	Remainder of 2016	2017	2018	2019	2020	2021 and thereafter
Long-term debt obligations	\$211,250	\$ —	\$ —	\$86,250	\$ —	\$125,000	\$ —
Interest on convertible notes	23,134	3,002	6,003	6,003	4,063	4,063	—
Operating lease obligations	35,126	949	3,747	2,637	2,405	2,504	22,884
Total	\$269,510	\$ 3,951	\$9,750	\$94,890	\$6,468	\$131,567	\$ 22,884

Refer to Note 6 of the Notes to the Condensed Consolidated Financial Statements for a discussion of long-term debt obligations and Note 8 of the Notes to the Condensed Consolidated Financial Statements for a discussion of operating lease obligations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements (except for operating leases) that provide financing, liquidity, market or credit risk support, or involve derivatives. In addition, we have no arrangements that may expose us to liability that are not expressly reflected in the accompanying Condensed Consolidated Financial Statements.

As of September 30, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, often referred to as "structured finance" or "special purpose entities," established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not subject to any material financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not believe that we currently have material exposure to interest rate or foreign currency transaction risks.

Interest Rate and Market Risk. We have investments in U.S. Government and agency securities, corporate bonds and other debt securities. As a result, we are exposed to potential loss from market risks that may occur as a result of changes in interest rates, changes in credit quality of the issuer or otherwise.

We generally place our marketable security investments in high quality credit instruments, as specified in our investment policy guidelines. A hypothetical 100 basis point decrease in interest rates would result in an approximate \$123 thousand increase in the fair value of our investments as of September 30, 2016. We believe, however, that the conservative nature of our investments mitigates our interest rate exposure, and our investment policy limits the amount of our credit exposure to any one issue, issuer (with the exception of U.S. agency obligations) and type of instrument. We do not expect any material loss from our marketable security investments and therefore believe that our potential interest rate exposure is limited. We intend to hold the majority of our investments to maturity, in accordance with our business plans.

We do not use derivative financial instruments in our investment portfolio. We are averse to principal loss and try to ensure the safety and preservation of our invested funds by limiting default risk, market risk, and reinvestment risk. We attempt to mitigate default risk by investing in only high credit quality securities and by positioning our portfolio to appropriately respond to a significant reduction in the credit rating of any investment issuer or guarantor.

We are exposed to market risk for changes in interest rates on the MidCap Credit Facility. All outstanding amounts under the MidCap Credit Facility bear interest at a variable rate equal to LIBOR, plus 4.10%. As of September 30, 2016, we had no amounts outstanding under the MidCap Credit Facility.

Our Senior Notes bear fixed interest rates, and therefore, would not be subject to interest rate risk. The Capped Call transactions are derivative instruments that qualify for classification within stockholders' equity because they meet an exemption from mark-to-market derivative accounting. The settlement amounts for the capped call transactions are each determined based upon the difference between a strike price and a traded price of the Company's common stock.

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Foreign Currency Transaction Risk. While a majority of our business is denominated in the U.S. dollar, a portion of our revenue and expenses are denominated in foreign currencies. Fluctuations in the rate of exchange between the U.S. dollar and the Euro or the British Pound Sterling may affect our results of operations and the period-to-period comparisons of our operating results. Foreign currency transaction gains and losses are caused by transactions denominated in a currency other than the functional currency and must be remeasured at each balance sheet date or upon settlement. Foreign currency transaction realized and unrealized gains and losses resulted in approximately \$0.1 million of gains during the three months ended September 30, 2016 and \$0.8 million of losses during the nine months ended September 30, 2016, primarily related to intercompany payables and receivables associated with our European operations. We expect to reduce our exposure through future settlements.

Market Price Sensitive Instruments. In connection with our merger with TriVascular Technologies, Inc. (“TriVascular”) in February 2016, we issued 13.6 million shares of our common stock as consideration to the former stockholders of TriVascular. As a result of our issuance of such shares in the merger, the quantity of authorized common shares available for future issuance at that time was reduced to a level insufficient to honor all of the potential common shares underlying instruments then outstanding. Such instruments included the conversion options related to the 3.25% Senior Notes and 2.25% Senior Notes, employee stock options, restricted stock units, contingently issuable common stock relating to the prior Nellix acquisition, and stock warrants. The creation of this authorized share deficiency in February 2016 required us, during the first quarter of 2016, to separate as a stand-alone derivative the 3.25% Senior Notes conversion option and a portion of the 2.25% Senior Notes conversion option for which no authorized shares are available to effect share settlement in the event of a conversion. Accordingly, in February 2016 we re-classed \$24.8 million of the equity component of the Senior Notes to derivative liabilities which will be marked to market each period. For the nine months ended September 30, 2016, we recorded \$43.8 million as a fair value adjustment of derivative liabilities primarily based on our stock price increasing from \$7.42 to \$13.06 from the date of reclassification. The value of the derivative liability and our earnings was subject to market price risk until we increased the number of our authorized common shares to alleviate the deficiency. In June 2016, upon the approval of our stockholders, we amended our certificate of incorporation to increase the number of our authorized common shares eliminating the authorized share deficiency.

Item 4. CONTROLS AND PROCEDURES.

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Following the completion of our merger with TriVascular on February 3, 2016, we have implemented internal controls over financial reporting to include consolidation of TriVascular, as well as acquisition-related accounting and disclosures. Our merger with TriVascular represents a material change in internal control over financial reporting since management’s last assessment of our internal control over financial reporting, which was completed as of December 31, 2015. TriVascular utilizes separate information and accounting systems and processes. Our management is in the process of reviewing and evaluating the design and operating effectiveness of its internal control over financial reporting relating to TriVascular.

There have been no other material changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter September 30, 2016 that have materially affected,

or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

Refer to Note 8 of the Notes to the Condensed Consolidated Financial Statements for a discussion of our legal proceedings.

We are from time to time involved in various other legal proceedings, most of which are routine litigation in the normal course of business. We believe that the resolution of the legal proceedings in which we are involved will not have a material adverse effect on our financial position or results of operations.

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Item 2.

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2015, as well as the information contained in this Quarterly Report and our other reports filed with the SEC. There have been no material changes in the risk factors as previously disclosed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K with the SEC for the year ended December 31, 2015.

Item 6. Exhibit Index.

The following exhibits are filed or furnished herewith:

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.

Exhibit 32.1 (1) Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

Exhibit 32.2 (1) Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

Exhibit
101.INS XBRL Instance Document

Exhibit
101.SCH XBRL Taxonomy Extension Schema Document

Exhibit
101.CAL XBRL Taxonomy Extension Calculation Link Base Document

Exhibit
101.DEF XBRL Taxonomy Extension Definition Link Base Document

Exhibit
101.LAB XBRL Taxonomy Extension Label Link Base Document

Exhibit
101.PRE XBRL Taxonomy Extension Presentation Link Base Document

(1)Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

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

ENDOLOGIX, INC.

Date: November 8, 2016 /s/ John McDermott
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Date: November 8, 2016 /s/ Vaseem Mahboob
Chief Financial Officer (Principal Financial and Accounting Officer)