ENDOLOGIX INC /DE/
Form 10-Q
May 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____to _____
Commission file number 000-28440

ENDOLOGIX, INC.
(Exact name of registrant as specified in its charter)

Delaware	68-0328265
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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 x No o

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 x No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. o

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

On May 4, 2018, there were 84,010,318 shares outstanding of the registrant’s only class of common stock.

ENDOLOGIX, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2018

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Part I. Financial Information

ENDOLOGIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value amounts)
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$48,020	$57,991
Restricted cash	2,067	2,608
Accounts receivable, net allowance for doubtful accounts of $634 and $470, respectively.	29,241	32,294
Other receivables	437	418
Inventories	45,809	45,153
Prepaid expenses and other current assets	3,120	4,670
Total current assets	$128,694	$143,134
Property and equipment, net	18,598	19,212
Goodwill	120,977	120,927
Intangibles, net	79,380	80,403
Deposits and other assets	1,694	1,371
Total assets	$349,343	$365,047
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$13,005	$12,351
Accrued payroll	14,519	15,054
Accrued expenses and other current liabilities	15,571	16,002
Current portion of debt	17,474	17,202
Revolving line of credit	—	21
Total current liabilities	$60,569	$60,630
Deferred income taxes	201	201
Deferred rent	7,742	7,724
Other liabilities	3,150	3,877
Contingently issuable common stock	8,200	9,300
Debt	210,587	208,253
Total liabilities	$290,449	$289,985
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. 84,209,056 and 83,855,824 shares issued, respectively. 83,996,817 and 83,643,585 shares outstanding, respectively.	84	84
Treasury stock, at cost, 212,239 shares.	(2,942)	(2,942)
Additional paid-in capital	598,312	594,586
Accumulated deficit	(539,768)	(520,001)
Accumulated other comprehensive income	3,208	3,335

Total stockholders' equity	$58,894	$75,062
Total liabilities and stockholders' equity	$349,343	$365,047

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

ENDOLOGIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenue	$42,284	$42,612
Cost of goods sold	13,958	13,970
Gross profit	28,326	28,642
Operating expenses:		
Research and development	5,499	5,530
Clinical and regulatory affairs	3,571	3,835
Marketing and sales	21,725	25,900
General and administrative	10,369	8,873
Restructuring costs	233	166
Total operating expenses	41,397	44,304
Loss from operations	(13,071)	(15,662)
Other income (expense):		
Interest income	3	44
Interest expense	(5,807)	(4,295)
Other income (expense), net	363	(47)
Change in fair value of contingent consideration related to acquisition	1,100	(1,200)
Loss on debt extinguishment	(2,270)	—
Total other income (expense)	(6,611)	(5,498)
Net loss before income tax expense	(19,682)	(21,160)
Income tax expense	(85)	(154)
Net loss	$(19,767)	$(21,314)
Other comprehensive income (loss) foreign currency translation	(127)	356
Comprehensive loss	$(19,894)	$(20,958)
Basic and diluted net loss per share	$(0.24)	$(0.26)
Shares used in computing basic and diluted net loss per share	83,706	82,928

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

ENDOLOGIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(19,767)	$(21,314)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	152	23
Depreciation and amortization	1,992	2,313
Stock-based compensation	3,021	2,954
Change in fair value of contingent consideration related to acquisition	(1,100)	1,200
Accretion of interest & amortization of deferred financing costs on debt	2,622	2,547
Non-cash foreign exchange (gain) loss	(326)	4
Loss on debt extinguishment	2,270	—
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	3,081	5,004
Inventories	(784)	(1,463)
Prepaid expenses and other current assets	275	450
Accounts payable	391	(4,517)
Accrued payroll	(585)	131
Accrued expenses and other liabilities	(1,116)	(285)
Net cash used in operating activities	$(9,874)	$(12,953)
Cash flows from investing activities:		
Maturities of marketable securities	—	2,500
Purchases of property and equipment	(200)	(390)
Net cash (used in) provided by investing activities	$(200)	$2,110
Cash flows from financing activities:		
Cash paid for debt extinguishment	(1,310)	—
Net proceeds from revolving line of credit	(21)	—
Proceeds from exercise of stock options	706	131
Net cash (used in) provided by financing activities	$(625)	$131
Effect of exchange rate changes on cash and cash equivalents and restricted cash	187	133
Net increase (decrease) in cash and cash equivalents and restricted cash	$(10,512)	$(10,579)
Cash, cash equivalents and restricted cash, beginning of period	60,599	28,121
Cash, cash equivalents and restricted cash, end of period	$50,087	$17,542
Cash and cash equivalents, beginning of period	57,991	26,120
Restricted cash, beginning of period	$2,608	$2,001
Cash and cash equivalents, and restricted cash, beginning of period	$60,599	$28,121
Cash and cash equivalents, end of period	$48,020	$15,541
Restricted cash, end of period	$2,067	$2,001
Cash and cash equivalents, and restricted cash, end of period	$50,087	$17,542
Net decrease in cash, cash equivalents and restricted cash	$(10,512)	$(10,579)

Supplemental disclosure of cash flow information:		
Cash paid for interest	$2,107	$170
Cash paid for income taxes	$134	$42
Non-cash investing and financing activities:		
Acquisition of property and equipment included in accounts payable	$147	$47

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

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 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 treatment of abdominal aortic aneurysms ("AAA"). The Company's AAA products are built on two platforms: (i) traditional minimally-invasive endovascular repair ("EVAR") and (ii) endovascular 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"), Endologix AFX® Endovascular AAA System ("AFX"), the VELA® Proximal Endograft System ("VELA") and the Endologix IntuiTrak® Endovascular AAA System ("IntuiTrak"). The Company's current EVAS product is the Nellix Endovascular Aneurysm Sealing System ("Nellix EVAS System"). The Company derives all of its reported revenue from sales of its EVAR and EVAS platforms (including extensions and accessories) to hospitals in the United States and Europe and to third-party international distributors.

(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 with the rules and regulations of the U.S. Securities and Exchange Commission (the "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 months ended March 31, 2018 and 2017, there were no related party transactions.

The interim financial data as of March 31, 2018 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 months ended March 31, 2018. 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 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, 2017, filed with the SEC on March 13, 2018.

(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 months ended March 31, 2018, 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 United States.

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 the Company's significant accounting policies, please refer to Note 2, "Use of Estimates and Summary of Significant Accounting Policies", in Part II, Item 8, of the Company's 2017 Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 13, 2018. For an updated significant discussion of the Company's accounting policy surrounding revenue recognition as a result of the implementation of Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”, please refer to Note 7 of the Notes to the Condensed Consolidated

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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)

Financial Statements. There have been no other material changes to the Company's significant accounting policies during the three months ended March 31, 2018.

3. Balance Sheet Account Detail
(a) Property and Equipment
Property and equipment consisted of the following:

	March 31, 2018	December 31, 2017
Production equipment, molds, and office furniture	$ 12,137	$ 12,118
Computer hardware and software	8,151	8,115
Leasehold improvements	15,499	15,499
Construction in progress (software and related implementation, production equipment, and leasehold improvements)	1,080	743
Property and equipment, at cost	$ 36,867	$ 36,475
Accumulated depreciation	(18,269)	(17,263)
Property and equipment, net	$ 18,598	$ 19,212

Depreciation expense for property and equipment for the three months ended March 31, 2018 and 2017 was $1.0 million and $1.4 million, respectively.

(b) Inventories
Inventories consisted of the following:

	March 31, 2018	December 31, 2017
Raw materials	$ 12,343	$ 12,226
Work-in-process	7,489	7,736
Finished goods	25,977	25,191
Total Inventories	$ 45,809	$ 45,153

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(all tabular amounts presented in thousands, except per share, per unit, and number of years)
(Unaudited)

(c) Goodwill and Intangible Assets

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

	March 31, 2018	December 31, 2017
Goodwill	$120,977	$ 120,927
Intangible assets:		
Indefinite lived intangibles		
Trademarks and trade names	$2,708	$ 2,708
In-process research and development	11,200	11,200
Finite lived intangibles		
Developed technology	$67,600	$ 67,600
Accumulated amortization	(8,003)	(7,167)
Developed technology, net	$59,597	$ 60,433
Customer relationships	$7,500	$ 7,500
Accumulated amortization	(1,625)	(1,438)
Customer relationships, net	$5,875	$ 6,062
Intangible assets (excluding goodwill), net	$79,380	$ 80,403

The change in the carrying amount of goodwill for the three months ended March 31, 2018 is as follows (in thousands):

Balance at December 31, 2017	120,927
Foreign currency translation adjustment	50
Balance at March 31, 2018	$120,977

Amortization expense for intangible assets for the three months ended March 31, 2018 and 2017 was $1.0 million and $0.9 million, respectively.

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

Remainder of 2018	$3,071
2019	4,300
2020	4,945
2021	7,020
2022	8,734
2023 & Thereafter	37,402
Total	$65,472

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(all tabular amounts presented in thousands, except per share, per unit, and number of years)
(Unaudited)

(d) 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 March 31, 2018 and December 31, 2017:

	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 March 31, 2018				
Cash and cash equivalents	$48,020	$—	$—	$48,020
Restricted cash	$2,067	$—	$—	$2,067
Contingently issuable common stock	$—	$—	$8,200	$8,200
At December 31, 2017				
Cash and cash equivalents	$57,991	$—	$—	$57,991
Restricted cash	$2,608	$—	$—	$2,608
Contingently issuable common stock	$—	$—	$9,300	$9,300

There were no re-measurements to fair value during the three months ended March 31, 2018 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 three months ended March 31, 2018.
(e) Financial Instruments Not Recorded at Fair Value on a Recurring Basis
The Company measures the fair value of its 2.25% Convertible Senior Notes due 2018 and 3.25% Convertible Senior Notes due 2020 (collectively, the "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 the Senior Notes was $128.0 million as of March 31, 2018 and $131.2 million as of December 31, 2017.
The Company measures the fair value of its Term Loan (see Note 6 of the Notes to the Condensed Consolidated Financial Statements) carried at amortized cost quarterly for disclosure purposes. The estimated fair value of the Term Loan is determined by Level 3 inputs and is based primarily on unobservable inputs that are not corroborated by market data. The fair value of the Company's Term Loan was $103.2 million as of March 31, 2018.

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 months

ended March 31, 2018 and 2017, was as follows:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(all tabular amounts presented in thousands, except per share, per unit, and number of years)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cost of goods sold	$236	$169
Operating expenses:		
Research and development	333	260
Clinical and regulatory affairs	176	260
Marketing and sales	1,114	1,058
General and administrative	1,162	1,207
Total operating expenses	$2,785	$2,785
Total	$3,021	$2,954

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 months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
Net loss	$(19,767)	$(21,314)
Shares used in computing basic and diluted net loss per share	83,706	82,928
Basic and diluted net loss per share	$(0.24)	$(0.26)

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 March 31,	
	2018	2017
Common stock options	270	696
Restricted stock awards	118	120
Restricted stock units	307	252
Total	695	1,068

Conversion of Senior Notes

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 in 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(all tabular amounts presented in thousands, except per share, per unit, and number of years)
(Unaudited)

Deerfield Warrants

On April 3, 2017, the Company entered into a Facility Agreement (the "Facility Agreement") with affiliates of Deerfield Management Company, L.P. (collectively, "Deerfield"), pursuant to which Deerfield agreed to loan to the Company up to $120.0 million, subject to the terms and conditions set forth in the Facility Agreement (the "Term Loan"). Pursuant to the terms of the Facility Agreement, the Company issued warrants to Deerfield to purchase an aggregate of 6,470,000 shares of common stock of the Company at an exercise price of $9.23 per share (the "Deerfield Warrants"). The number of shares of common stock of the Company into which the Warrants are exercisable and the exercise price of the Warrants will be adjusted to reflect any stock splits, recapitalizations or similar adjustments in the number of outstanding shares of common stock of the Company. Refer to Note 6 of the Notes to the Condensed Consolidated Financial Statements for further discussion.

The potential dilutive effect of these securities is shown in the chart below:

	Three Months Ended March 31,	
	2018	2017
Conversion of the Notes	11,939	14,767
Deerfield Warrants	6,470	—

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.

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 could 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: (i) 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; (ii) 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; (iii) 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 (iv) 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 2.25% Senior Notes 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.

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, 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 as a reduction of the 2.25% Senior Convertible Notes, 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.

On April 3, 2017, the Company entered into the Facility Agreement with Deerfield, pursuant to which Deerfield agreed to loan to the Company up to $120 million, subject to the terms and conditions set forth in the Facility Agreement. The Company used a portion of the proceeds from the Term Loan to repurchase $68 million aggregate principal amount of outstanding 2.25% Senior Notes, plus the accrued but unpaid interest thereon, from the holders thereof in privately negotiated transactions. Refer to the section entitled Deerfield Facility Agreement below for further discussion. The embedded conversion option of the 2.25% Senior Notes, which was originally recorded in additional paid-in capital, was reduced by $2.2 million. Additionally, $3.2 million related to the reduction of outstanding principal related to the 2.25% Senior Notes was charged to loss on debt extinguishment on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.

As of March 31, 2018, the Company had outstanding borrowings of $17.6 million, and deferred financing costs of $0.1 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 $1.1 million to $1.5 million through maturity.

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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.

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.

In connection with the Company's repurchase of approximately $68 million aggregate principal amount of outstanding 2.25% Senior Notes in April 2017, the Company and Bank of America, N.A. unwound the portion of the Capped Call Transactions relating to the repurchased 2.25% Senior Notes. These Capped Call Transactions were originally classified in stockholders' equity and continued to meet the criteria for classification thereof while outstanding, and therefore were not subsequently measured at fair value. The Company did not pay or receive any compensation related

to the unwind of the Capped Call Transactions. Therefore, the Company accounted for the unwind of the Capped Call Transactions by removing these options at their carrying value in additional paid-in capital and recording an offsetting entry to additional paid-in capital. As a result, the Company did not recognize any gain or loss, and the unwind had no net impact on additional paid-in capital.

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.

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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: (i) 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; (ii) 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; (iii) 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 (iv) 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 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.

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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 as a reduction of the 3.25% Senior Convertible Notes, 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.

As of March 31, 2018, the Company had outstanding borrowings of $109.4 million, and deferred financing costs of $1.7 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.

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 could 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 accrued 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 meant 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).

The MidCap Credit Facility was secured by substantially all of the Company's assets, excluding its intellectual property ("Collateral"), and placed customary limitations on indebtedness, liens, distributions, acquisitions, investments, and other activities of the Company in a manner designed to protect the Collateral.

Deferred financing costs directly related to the MidCap Credit Facility such as legal, origination, and professional services fees totaled $0.9 million, which was recorded as deferred financing costs in other assets, to be subsequently amortized 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.

In conjunction with the Company's termination of the Company's prior credit facility with Bank of America 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.

On April 3, 2017, the Company replaced the MidCap Credit Facility with a new revolving line of credit with Deerfield ELGX Revolver, LLC. As a result, the Company wrote off approximately $0.8 million in deferred financing costs and was required to pay a $2.5 million termination fee to Midcap; the foregoing were charged to loss on debt extinguishment on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.

Deerfield Facility Agreement

On April 3, 2017 ("Agreement Date"), the Company entered into a Facility Agreement (the "Facility Agreement") with affiliates of Deerfield Management Company, L.P. (collectively, "Deerfield"), pursuant to which Deerfield agreed to loan to the Company up to $120.0 million, subject to the terms and conditions set forth in the Facility Agreement (the "Term Loan"). The Company drew the entire principal amount of the Term Loan on the Agreement Date. The Company

agreed to pay Deerfield a yield enhancement fee equal to 2.25% of the principal amount of the funds disbursed on the Agreement Date. The Company also agreed to reimburse Deerfield for all reasonable out-of-pocket expenses incurred by Deerfield in connection with the negotiation and documentation of the Facility Agreement up to a capped amount. Accordingly, deferred financing costs of $5.1 million were recorded on the Company's Condensed Consolidated Balance Sheet as a direct reduction of the Term Loan, to be subsequently amortized as interest expense over the effective period of the Term Loan. Concurrently with entering into the Facility Agreement, the Company entered into a Guaranty and Security Agreement with Deerfield (the "Security Agreement"), pursuant to which, as security for the repayment of the Company's obligations under the Facility Agreement, the Company granted to Deerfield a first priority security interest in substantially all of the Company's assets including intellectual property, with the priority of such security interest being pari passu with the security interest granted pursuant to the Facility Agreement.

Any amounts drawn under the Facility Agreement accrue interest at a rate of 6.87% per annum, payable quarterly in arrears beginning on July 1, 2017 and on the first business day of each calendar quarter thereafter and on the Maturity Date, unless repaid earlier. The Company will be required to pay Deerfield on each of April 2, 2021, April 2, 2022 and April 2, 2023 (the "Maturity Date"), an amortization payment equal to $40 million (or, if on the Maturity Date, the remaining outstanding principal amount of the Term Loan).

Upon a change of control of the Company, if the acquirer satisfies certain conditions set forth in the Facility Agreement, such acquirer may assume the outstanding principal amount under the Facility Agreement without penalty. If such acquirer does not satisfy the conditions set forth in the Facility Agreement, Deerfield may, at its option, require the Company to repay the outstanding principal balance under the Facility Agreement plus, depending on the timing of the change of control transaction, the Company may be required to pay a make-whole premium and will be required to pay a change of control fee.

At any time on or after the fourth anniversary of the Agreement Date, the Company has the right to prepay any amounts owed under the Facility Agreement without premium or penalty, unless such prepayment occurs in connection with a change of control of the Company, in which case the Company must pay Deerfield a change of control fee unless such change of control occurs beyond a certain period after the Maturity Date. At any time prior to the fourth anniversary of the Agreement Date, any prepayment made by the Company will be subject to a make-whole premium and, if such prepayment occurs in connection with a change of control of the Company, a change of control fee.

Any amounts drawn under the Facility Agreement may become immediately due and payable upon customary events of default, as defined in the Facility Agreement, or the consummation of certain change of control transactions, as described above.

The Facility Agreement contains various representations and warranties, events of default, and affirmative and negative covenants, customary for financings of this type, including reporting requirements, requirements that the Company maintain timely reporting with the SEC and restrictions on the ability of the Company and its subsidiaries to incur additional liens on their assets, incur additional indebtedness and acquire and dispose of assets outside the ordinary course of business.

As of March 31, 2018, the Company had outstanding borrowings of $107.2 million, and deferred financing costs of $4.3 million, related to the Term Loan. Annual interest expense on these notes will range from $1.5 million to $12.7 million through maturity.

Warrants

In connection with the execution of the Facility Agreement, the Company issued to Deerfield warrants to purchase an aggregate of 6,470,000 shares of common stock of the Company at an exercise price of $9.23 per share (the "Deerfield Warrants"). The number of shares of common stock of the Company into which the Warrants are exercisable and the exercise price of the Warrants will be adjusted to reflect any stock splits, recapitalizations or similar adjustments in the number of outstanding shares of common stock of the Company.

The Warrants expire on the seventh anniversary of the Agreement Date. Subject to certain exceptions, the Warrants contain limitations such that the Company may not issue shares of common stock of the Company to Deerfield upon the exercise of the Warrants if such issuance would result in Deerfield beneficially owning in excess of 4.985% of the total number of shares of common stock of the Company then issued and outstanding.

The holders of the Warrants may exercise the Warrants for cash, on a cashless basis or through a reduction of an amount of principal outstanding under the Term Loan. In connection with certain major transactions, the holders may have the option to convert the Warrants, in whole or in part, into the right to receive the transaction consideration payable upon consummation of such major transaction in respect of a number of shares of common stock of the

Company equal to the Black-Scholes value of the Warrants, as defined therein, and in the case of other major transactions, the holders may have the right to exercise the Warrants, in whole or in part, for a number of shares of common stock of the Company equal to the Black-Scholes value of the Warrants.

The Company measured the initial fair value of the 6,470,000 shares underlying the Deerfield Warrants at $14.3 million, net of issuance costs of $0.4 million, and recorded the amount in additional paid-in-capital and as a direct reduction of the Term Loan, to be subsequently amortized as interest expense over the effective period of the Term Loan.

Registration Rights Agreement

In connection with the Term Loan and the issuance of the Warrants, the Company entered into a Registration Rights Agreement with Deerfield (the “Registration Rights Agreement”). Pursuant to the terms of the Registration Rights Agreement, the Company agreed to file a registration statement on Form S-3 (or if Form S-3 is not then available, such other form of registration

statement as is then available) with the Commission on or prior to the 30th day following the Agreement Date, to register for resale the shares of common stock of the Company issuable upon the exercise of the Warrants. The aforementioned registration statement was filed on Form S-3 on May 2, 2017.

Credit and Security Agreement

On the Agreement Date, the Company entered into a Credit and Security Agreement (the "Credit Agreement") with Deerfield ELGX Revolver, LLC ("Deerfield Revolver"), pursuant to which the Company could borrow up to the lesser of $50 million or its applicable borrowing base from time to time prior to March 31, 2020 (the "Revolver"). Any outstanding principal under the Revolver will accrue interest at a rate equal to 3-month LIBOR (with a 1% floor) plus 4.60%, payable monthly in arrears on the first business day of the immediately succeeding calendar month and on the maturity date. The Company is subject to other fees in addition to interest on the outstanding principal amount under the Revolver, including in connection with an early termination of the Revolver.

As described above, the Deerfield Revolver replaced the Company's $50.0 million asset-based revolving line of credit with MidCap Financial Trust. As a result, the Company recorded $1.2 million in deferred financing costs related to the Deerfield Revolver and presented these costs in other assets, to be subsequently amortized as interest expense over the term of the Deerfield Revolver, on the Company's Condensed Consolidated Balance Sheets. The Company's obligations under the Credit Agreement are secured by a first priority security interest in substantially all of the Company's assets including intellectual property, with the priority of such security interest being pari passu with the security interest granted pursuant to the Term Loan.

In conjunction with the Company's entry into the Credit Agreement, 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 Sheets.

As of December 31, 2017, the Company was not in compliance with the required minimum net revenue threshold set forth in the Credit Agreement. On January 5, 2018, the Company delivered a notice of termination to Deerfield for the Deerfield Revolver under the Credit Agreement. The termination of the Deerfield Revolver was effective on January 12, 2018 (the "Termination Date") and required the Company to pay $1.3 million in termination fees. Additionally, the Company wrote off $1.0 million in unamortized deferred financing costs as of the Termination Date. The total of $2.3 million was charged to loss on debt extinguishment on the Company's Consolidated Statements of Operations and Comprehensive Loss.

7. Revenue

(a) Summary

The Company measures revenue based on consideration specified in a contract with a customer: hospitals and distributors. The Company excludes any amounts related to taxes assessed by governmental authorities from this revenue measurement and reduces revenue by any sales incentives offered by the Company to its customers. The Company recognizes revenue when it satisfies a performance obligation by transferring control of products to customers. Shipping and handling costs billed to customers are reported within revenue, with the corresponding costs within costs of goods sold. In addition, any shipping and handling costs related to outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of revenues.

(b) Contracts with Customers

The Company recognizes revenue when all of the following criteria are met:

- A contract has been identified with the customer;
- The performance obligations have been identified;
- The transaction price has been determined and allocated to respective performance obligations; and
- The performance obligations have been satisfied.

Respective performance obligations are satisfied at a point in time for sales made to both hospitals and distributors. Payment terms with customers range between 30 and 180 days which reflects days from the date the Company satisfies the performance obligations.

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For implant-based sales, the Company recognizes revenue when the AAA products are utilized in a procedure or implanted in a patient.

For shipment-based sales, the Company recognizes revenue when control over a product has transferred to the customer, which is typically at the time of shipment, without a right of return.

The Company provides certain sales incentives to customers for meeting certain purchase thresholds and accordingly, the transaction price is reduced by the Company's best estimate of this variable consideration. The Company estimates this variable consideration through the most likely amount method.

(c) Revenue Disaggregation

The Company disaggregated revenue in accordance with the new revenue recognition standard to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. These economic factors are primarily attributable to different geographic regions and the timing of transfer of control of products to customers. Accordingly, sales in which control of the product has passed to the customer at the time of procedure or implant into a patient or at the time of shipment have been bifurcated as "Implant-based" and "Shipment-based" revenue, respectively. The table below includes a reconciliation of disaggregated revenue with the Company's reportable segment:

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Implant-based	Shipment-based	Total	Implant-based	Shipment-based	Total
United States	$28,870	$ 505	$29,375	$30,512	$ 377	$30,889
Total International	5,542	$ 7,367	$12,909	4,778	$ 6,945	$11,723
Revenue	$34,412	$ 7,872	$42,284	$35,290	$ 7,322	$42,612

(d) Transitional Disclosures

In May 2014, the Financial Accounting Standards Board (the "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. ASU No. 2014-09 replaced most existing revenue recognition guidance in U.S. GAAP when it became effective for the Company on January 1, 2018. The new revenue standard permits the use of either the full retrospective or modified retrospective transition method; these methods may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company adopted the new revenue standard in the first quarter of 2018 utilizing the modified retrospective adoption method. The new revenue standard has been applied to all contracts at the date of initial application. The Company did not record a cumulative adjustment to the opening balance of retained earnings for the Company's first quarter of 2018 financial statements.

8. Commitments and Contingencies

(a) Leases

The Company leases its administrative, research, and manufacturing facilities located in Irvine, California, and 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.

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Future minimum payments by year under non-cancelable leases with initial terms in excess of one year were as follows as of March 31, 2018:

Remainder of 2018	$2,658
2019	3,661
2020	3,826
2021	3,701
2022	3,800
2023 and thereafter	18,021
Total	$35,667

Facilities rent expense for the three months ended March 31, 2018 and 2017 was $0.9 million and $0.9 million, respectively.

(b) Employment Agreements and Retention Plan

The Company has 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 twenty-four 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 resolved this litigation and fully and finally released 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.

Steven M. Ortiz v. Endologix, Inc.

On September 9, 2016, former employee Steven M. Ortiz filed a class action lawsuit against the Company in Orange County Superior Court, claiming the Company's failure to pay all overtime wages owing; failure to provide meal periods and failure to pay meal period premiums; failure to pay all wages owed at time of termination seeking waiting time penalties under Labor Code section 203; failure to provide accurate wage statements; violations of Business and Professions Code section 17200 and alleging claims for penalties under the Private Attorneys General Act of 2004. While the Company contests the allegations

asserted in the litigation, a mediation was held on February 24, 2017 at which time the parties agreed to settle the case for $750,000. The court gave final approval to the settlement agreement and the $750,000 in settlement funds that were deposited with the Class Administrator have been distributed.

Stockholder Securities Litigation

In January 2017, two stockholders purporting to represent a class of persons who purchased the Company's securities between August 2, 2016 and November 16, 2016, filed lawsuits against the Company and certain of its officers in the United States District Court for the Central District of California. The lawsuits allege that the Company made materially false and misleading statements and failed to disclose material adverse facts about its business, operational and financial performance, in violation of federal securities laws, relating to U.S. Food and Drug Administration Premarket Approval for the Company's Nellix EVAS System. On May 26, 2017, the plaintiffs filed an amended complaint extending the class period to include persons who purchased the Company's securities between May 5, 2016 and May 18, 2017 and adding certain factual assertions and allegations regarding the Nellix EVAS System. The plaintiffs sought unspecified monetary damages on behalf of the alleged class, interest, and attorney's fees and costs of litigation. The first lawsuit, Nguyen v. Endologix, Inc. et al., Case No. 2:17-cv-0017 AB (PLAx) (C.D. Cal.), was consolidated with the second lawsuit, Ahmed v. Endologix, Inc. et al, Case No. 8:17-cv-00061 AB (PLAx) (C.D. Cal.), and lead Nguyen plaintiff filed a consolidated First Amended Complaint. On December 5, 2017, the District Court granted Endologix's motion to dismiss lead plaintiff's First Amended Complaint, with leave to amend. On January 9, 2018, lead plaintiff filed a Second Amended Complaint and on March 12, 2018, the Company filed its Motion to Dismiss lead plaintiff's Second Amended Complaint. The Company believes these lawsuits are without merit and intends to defend itself vigorously.

Stockholder Derivative Litigation

Four shareholders have filed derivative lawsuits on behalf of Endologix, the nominal plaintiff, based on allegations substantially similar to those alleged by lead plaintiff in Nguyen. Those actions consist of: Sindlinger v. McDermott et al., Case No. BC662280 (Los Angeles Superior Court); Abraham v. McDermott et al., Case No. 30-2018-00968971-CU-BT-CSC (Orange County Superior Court); and Green v. McDermott et al., Case No. 8:17-cv-01155-AB (PLAx), which has been consolidated with Cocco v. McDermott et al., Case No. 8:17-cv-01183-AB (PLAx) (C.D. Cal.). The Company believes these lawsuits are without merit and intends to defend itself vigorously.

SEC Investigation

In July 2017, the Company learned that the SEC issued a Formal Order of Investigation to investigate, among other things, events surrounding the Nellix EVAS System and the prospect of its Food and Drug Administration ("FDA") pre-market approval. The Company is fully cooperating with the investigation, but cannot predict its outcome or the timing of the investigation's conclusion.

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, if the Company receives approval from the FDA to sell the

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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)

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 March 31, 2018 the Company's stock price last closed at $4.23 per share. Thus, had the PMA Milestone been achieved on March 31, 2018 the Contingent Payment would have comprised 3.3 million shares (based on the 30-day average closing stock price ending 5 days prior to the announcement, subjected to the stock price floor of $4.50), representing a value of $14.1 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 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, 2017	$ 9,300
Fair Value Adjustment of Contingent Payment for the three months ended March 31, 2018	(1,100)
March 31, 2018	$ 8,200

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 $0.1 million and $0.2 million for the three months ended March 31, 2018 and 2017, respectively. The Company's ETR was (0.4)% and (0.7)% for the three months ended March 31, 2018, and 2017, respectively. The Company's ETR for the three months ended March 31, 2018 differs from the U.S. federal statutory tax rate of 21% primarily as a result of nondeductible expenses (including the Nellix Contingent Payment), 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.

On December 22, 2017, the President of the United States signed into law reforms of the US tax code (the “Tax Reform Act”). The legislation significantly changes US tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company recorded provisional amounts as of December 31, 2017 related to the Tax Reform Act under guidance set forth in Staff Accounting Bulletin No. 118 ("SAB 118"). These amounts have not been adjusted as of March 31, 2018, and the Company will continue to monitor any changes to the provisional amounts during the measurement period or until the accounting is complete. However, the Company does not anticipate any material impact to the financial statement due to the full valuation allowance.

11. Restructuring Charges

In the three months ended March 31, 2018, the Company recorded $0.2 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.

As of March 31, 2018, the Company estimates that it will incur a total of $12.8 million in restructuring charges upon the completion of the plan, of which $12.8 million has already been incurred since the first quarter of 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 three months ended March 31, 2018:

	One-time Termination Benefits
Accrual balance as of December 31, 2017	$ 1,008
Restructuring charges	233
Utilization	(773)
Accrual balance as of March 31, 2018	$ 468

The accrual balance as of March 31, 2018 is classified within accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheet.

12. Subsequent Event

Transition of John McDermott as Chief Executive Officer

The Company previously reported that John McDermott would step down from his role as Chief Executive Officer of the Company no later than June 30, 2018, pursuant to a Severance Agreement and General Release, dated February 21, 2018. In connection with the Company's appointment of a new Chief Executive Officer (as discussed below), Mr. McDermott has stepped down as Chief Executive Officer, effective as of May 2, 2018. Mr. McDermott will continue to serve as a non-executive employee through June 30, 2018 and will provide consulting services to the Company following his transition.

Appointment of John Onopchenko as Chief Executive Officer

On May 2, 2018, the Company announced that John Onopchenko has been appointed by the board of directors of the Company to serve as the Company's Chief Executive Officer, effective as of the same date.

In connection with Mr. Onopchenko's appointment as Chief Executive Officer, upon the recommendation of the Company's Compensation Committee, the board of directors approved, and the Company and Mr. Onopchenko entered into, an Employment Agreement, pursuant to which Mr. Onopchenko will receive, among other things: (i) an annual base salary of $600,000, (ii) a one-time cash sign-on bonus of $666,667, (iii) an annual cash bonus pursuant to any cash bonus plan approved by the Company's Compensation Committee or board of directors for senior executive officers, with a target bonus opportunity in an amount equal to 100% of his base salary (iv) time-based incentive stock options with a grant date fair market value of $450,000, (v) time-based restricted stock units with a grant date fair market value of $450,000, (vi) reimbursement for reasonable relocation expenses (vii) a housing allowance in the amount $4,000 per month until the earlier of (a) 36 months from November 1, 2017, and (b) his purchase of a permanent residence in the Orange County, California area, and (viii) all customary and usual benefits available to senior executive officers under the Company's benefit plans.

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

Special Note Regarding 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,", "projects," "should" or "will" or the negati terms or other 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:

- 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;
- our ability to grow product revenues;
- 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;
- pending and future litigation;
- reputational damage to our products caused by the use, misuse 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;
- our ability to identify and manage risks; 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 fiscal year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 13, 2018, 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 intention or obligation to update or revise any financial projections or 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

We develop, manufacture, market, and sell innovative medical devices for the treatment of aortic disorders. Our products are intended for the minimally invasive endovascular treatment of abdominal aortic aneurysms ("AAA"). Our AAA products are built on one of two platforms:

- Traditional minimally-invasive endovascular aneurysm repair (“EVAR”); and
- Endovascular aneurysm sealing (“EVAS”), our innovative solution for sealing the aneurysm sac while maintaining blood flow through two blood flow lumens.

Our current EVAR products include the AFX® Endovascular AAA System (the “AFX System”), the VELA® Proximal Endograft (“VELA”), and the Ovation® Abdominal Stent Graft System (the “Ovation System”). Our current EVAS product is the Nellix® Endovascular Aneurysm Sealing System (the “Nellix EVAS System”). We sell our EVAR platforms (including extensions and accessories) to hospitals in the United States, Canada, New Zealand, South Korea and Europe, and our EVAS platform to hospitals in New Zealand and Europe. We sell our EVAR and EVAS platforms (including extensions and accessories) to third-party international distributors and agents in Asia, Europe, South America and in other parts of the world. Such sales of our EVAR and EVAS platforms provide the sole source of our reported revenue.

See Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2017, 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®, Duraply®, VELA®, IntuiTrak®, ActiveSeal®, Nellix®, Ovation®, Ovation Prime®, Ovation Alto®, and CustomSeal® are registered trademarks of Endologix, Inc. and its subsidiaries.

We have obtained CE Mark approval for the Nellix EVAS System in the European Union. The Nellix EVAS System is only approved as an investigational device in the United States. Ovation Alto, our next generation Ovation System device, is only approved as an investigational device and is not currently approved in any market.

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

Nellix EVAS System

Our Nellix EVAS System is designed to seal the aneurysm and provide blood flow to the legs through two blood flow lumens. The Nellix EVAS System 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 associated accessories. The Nellix EVAS System is intended to seal the entire aneurysm sac effectively excluding the aneurysm and reducing the likelihood of future aneurysm rupture. We have the following trials in process to build independent and collective clinical and economic evidence of clinical safety and effectiveness:

- EVAS FORWARD Investigational Device Exemption (“IDE”) - We conducted this pivotal clinical trial to evaluate the safety and effectiveness of the Nellix EVAS System. This study is a prospective single arm registry which enrolled 179 patients at 29 centers in the United States and Europe. In November 2014, we completed enrollment in the study,

and we submitted the one year results to the FDA in March 2016. In May 2016, we announced the results of the one 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). Two-year imaging revealed a signal of migration, leading to a field safety notification issued in October 2016 and a dedicated root cause analysis, resulting in refinements to the Instructions for Use ("IFU"). Following the implementation of the refined IFU, the Nellix EVAS system is applicable to treat an estimated 40% of AAA patients with a traditional aneurysm.

Subsequently, the two-year results from the trial were announced. Key highlights from the Nellix US IDE trial two-year clinical data are included below:

- Freedom from all endoleaks (94%), rupture (97%), all-cause mortality (97%), and cardiovascular mortality (99%), among all patients.
- Highest freedom of type II endoleaks, of 97%, ever reported at two years, among all patients.
- When applying the refined IFUs for Nellix, patients at the two-year follow-up demonstrated 96% freedom from Type IA endoleak, migration >10mm, and sac growth.

EVAS2 IDE - In May 2017, we announced the decision to seek United States approval of the Nellix EVAS System by conducting a confirmatory clinical study with the refined IFU and the Gen2 device design. The Gen2 device incorporates design improvements to enhance ease of use and offers physicians more sizes to treat more patients with AAA. In October 2017, we announced our receipt of IDE approval from the FDA to commence a confirmatory clinical study to evaluate the safety and effectiveness of the Gen2 Nellix EVAS System for the endovascular treatment of infrarenal AAA. The EVAS2 IDE Multicenter Safety and Effectiveness Confirmatory Study ("EVAS2") will prospectively evaluate the refined IFU and the Nellix Gen2 EVAS System. The study is approved to enroll up to 90 primary patients, with one-year follow-up data required for the pre-market approval ("PMA") application. We commenced EVAS2 patient enrollment in March 2018, and currently estimate a decision on our PMA application by the end of 2020.

- EVAS FORWARD Global Registry - This study is designed to provide real world clinical results to demonstrate the effectiveness and applicability of the Nellix EVAS System. The first phase of the registry included 300 patients 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 EVAS FORWARD Global Registry. In November 2016, we announced positive two-year results on 300 patients from the EVAS FORWARD Global Registry at the annual VEITH meeting. The following outcomes were presented at the annual VEITH meeting:

- 37% of the patients had complex anatomies;
- 98% freedom from any persistent endoleaks at latest follow-up;
- No secondary interventions for Type II endoleaks;
- 97% freedom from aneurysm-related mortality; and
- 99% freedom from cardiovascular mortality

In 2017, the EVAS FORWARD Global Registry 2 commenced a post market evaluation of the Nellix Gen2 EVAS System, our second generation device design.

- 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. The results of the study were formally published in the peer-reviewed Journal of Endovascular Therapy in December 2017.

Refined IFU - In September 2017, we announced CE Mark approval for the Nellix EVAS System with the refined IFU. The Nellix EVAS System is being studied in the U.S. under an IDE. Following a thorough review of supporting clinical data, the Company's Notified Body in the European Union, together with an independent clinical reviewer, has determined that the Nellix EVAS System, with the refined IFU, meets the applicable safety and clinical performance requirements. As a result of these evaluations, the Notified Body has granted a CE Mark for the Nellix EVAS System with the refined IFU.

In April 2018, we announced the results of a study, which was presented by Marc Schermerhorn, M.D., Chief of Vascular Surgery at Beth Israel Deaconess Medical Center, at the Late-Breaking Aortic Trials Session during the Charing Cross 40th International Symposium. This retrospective, propensity-weighted study compared long-term survival for the Nellix® EndoVascular Aneurysm Sealing (EVAS) System with traditional endovascular aneurysm repair (EVAR). The study demonstrated significantly higher three-year survival for EVAS patients. Those patients with larger aneurysms (greater than 5.5 cm in diameter) treated with EVAS had half the mortality at three years as compared to those treated with traditional EVAR systems. The

retrospective study included 333 EVAS patients from the original Nellix US IDE Trial and 15,431 patients from the Society for Vascular Surgery Vascular Quality Initiative.

AFX

The AFX System consists of (i) a cobalt chromium alloy stent covered by expanded polytetrafluoroethylene (commonly referred to as “ePTFE”) graft material and (ii) accompanying delivery systems. Once fixed in its proper position within the abdominal aortic bifurcation, the AFX System 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. In February 2014, we launched a new proximal extension in the United States, VELA, designed to be used in conjunction with our AFX bifurcated device. VELA features a circumferential graft line marker and controlled delivery system that enable predictable deployment and final positional adjustments. We began a commercial introduction of VELA in Europe in January 2015.

In September 2014, we announced a new clinical study called LEOPARD (Looking at EVAR Outcomes by Primary Analysis of Randomized Data). This study was designed to compare outcomes of the AFX System versus other commercially available EVAR devices. We designed the LEOPARD study to randomize and enroll up to 600 patients at 60 leading centers throughout the United States and commenced enrollment in the first quarter of 2015. The centers were 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 are involved with the study and responsible for presenting the results over the five-year follow-up period.

Subsequently, positive interim results from LEOPARD were announced. Based upon the patients that have completed their one-year follow-up, freedom from Aneurysm Related Complications ("ARC") with AFX/AFX2 is 84.7%, compared to 82.0% with other devices. These preliminary results demonstrate similar outcomes between the endografts under investigation. AFX/AFX2, however, remains the only device that preserves the patient's aortic bifurcation. Based upon the anticipated number of additional patients required to prove superiority, we stopped further randomization in the LEOPARD study and plan to continue to follow enrolled patients for the planned five years.

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

In February 2016, we announced the completion of the first United States commercial implant of AFX2, which reduces procedure steps for the delivery and deployment of the bifurcated endograft. AFX2 also facilitates PEVAR by providing the lowest profile contralateral access through a 7F introducer. These improvements bring together our ActiveSeal® technology, DuraPly® PTFE graft material and VELA Proximal Endograft, into an integrated new EVAR system.

In December 2016, we received notice from our Notified Body in the European Union that the CE Mark for AFX and AFX2 would be suspended due to reports of Type III endoleaks with a prior generation of the device. We had, for our current generation of AFX products, implemented device and graft material improvements and updated IFUs resulting in a substantial reduction in reported Type III endoleaks. We provided documentation of the foregoing reduction in Type III endoleaks to our Notified Body. In January 2017, we received notice from our Notified Body that the CE Mark for AFX and AFX2 had been re-instated, effective immediately.

Additionally, in December 2016, we placed a temporary hold on shipments of AFX and AFX2 to complete an investigation of quality concerns with some sizes of these devices. Subsequently, we removed the temporary hold and resumed shipments of all sizes of AFX and the smaller diameter sizes of AFX2 and initiated a voluntary recall of (i) the small remaining quantity of original AFX with Strata graft material, and (ii) the larger diameter sizes of AFX2. In January 2017, we removed the temporary hold and resumed shipments of the remaining larger diameter sizes of AFX2.

Ovation

The Ovation System consists of (i) a radiopaque nitinol suprarenal stent with integral anchors, (ii) a low-permeability polytetrafluoroethylene (“PTFE”), aortic body graft that contains a network of inflatable rings filled with a liquid polymer that solidifies during the deployment procedure, (iii) nitinol iliac limb stents encapsulated with PTFE, and (iv) accompanying ultra-low profile delivery systems, auto injector and fill polymer kit. The Ovation System creates a custom seal that conforms to anatomical irregularities and the ultra-low profile system navigates tortuous anatomies.

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In May 2011, we initiated a three-year European Post Market Registry to enroll 500 patients across 30 European centers. Enrollment ended in December 2013. In January 2017, we announced positive three-year results from the Ovation EU Post Market Registry. The data was presented at the 2017 LINC meeting and showed that the Ovation platform has the broadest range of patient applicability on Instructions for Use of all commercially available infrarenal endovascular AAA devices. The resulting outcomes included:

- 99% freedom from aneurysm-related mortality;
- 99% freedom from migration, rupture, and conversion;
- 97% freedom from Type I/III endoleak; and
- Excellent freedom from secondary intervention for occlusion (97%), Type I endoleak (97%) and Type II endoleak (95%).

In October 2014, we initiated the LIFE Study to illustrate the potential advantages of a fast track protocol including PEVAR, no general 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. The following are highlights of the presentation, with outcomes covering one-month follow-up:

- Low major adverse event (MAE) rate of 0.4%;
- No ruptures, conversion, or secondary interventions;
- 99% and 100% freedom from type I and type III endoleaks, respectively;
- Fast-Track completed in 216 (87%) patients, with positive results compared to non-Fast-Track patients;
- Procedure time of 84 minutes vs. 110 minutes;
- General anesthesia use 0% vs. 18%;
- ICU stay 0% vs. 32%; and
- Mean hospital stay 1.2 vs. 1.9 days.

In August 2015, we enrolled the first subject in the LUCY Study, a multi-center post-market registry designed to explore the clinical benefits associated with EVAR using the Ovation Abdominal Stent Graft Platform in female patients with AAA, as compared to males. It is the first prospective study evaluating EVAR in females, a population that has historically been underrepresented in EVAR clinical trials. We announced completion of enrollment of 225 patients in the LUCY study in February 2017. The 30-day LUCY data showed that, in women, the ultra-low profile (14F) Ovation System device resulted in:

- At least 28% greater EVAR eligibility for women with AAA;
- 1.3% major adverse events, the lowest rate reported for EVAR, compared to other contemporary, prospective, post-market registries;
- No deaths;
- No proximal endoleaks;
- No limb occlusion;
- Low readmission rate of 3.9%; and
- 100% procedural success.

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, we initiated the launch of the Ovation iX System in the United States.

In November 2016, we announced at VEITH that the five-year results from the Ovation Global Pivotal Trial were positive and showed the following outcomes:

- Broad patient applicability, with 40% of the patients treated outside the labeled indications of other EVAR devices;
- Stable aortic neck diameters with an average expansion of 0.1%, compared to 25% as reported with other EVAR devices;
- 97% freedom from secondary interventions related to type I endoleak; and
- No migration or conversions.

In August 2016, we announced that the first two patients were treated with the Ovation Alto® Abdominal Stent Graft System, which is the newest device in the Ovation System platform of abdominal stent graft systems. Ovation Alto is an investigational device, currently not approved in any market. It expands EVAR to include the treatment of patients with complex AAAs, specifically patients with very short or otherwise complex aortic neck anatomy. This is achieved by the conformable O-rings with CustomSeal® polymer that have been repositioned near the top of the endograft, providing seal just below the renal arteries. In

November 2016, we received IDE approval from the FDA to conduct a clinical study with the Ovation Alto® Abdominal Stent Graft System in the United States.
In March 2017, we announced the enrollment of the first patients in the Expanding Patient Applicability with Polymer Sealing Ovation Alto Stent Graft ("ELEVATE") IDE clinical study, our pivotal clinical trial to evaluate the safety and effectiveness of Ovation Alto for the repair of infrarenal AAAs. The ELEVATE IDE clinical trial is approved to enroll 75 patients at up to 16 centers in the United States.
The Company plans to file regulatory submissions in the third quarter of 2018 and estimates potential approval of the Alto device in both the U.S. and European markets in 2019.

In March 2018, we announced the first results from ENCORE, a pooled, global analysis of six prospective clinical trials and registries studying polymer endovascular aneurysm repair (Polymer EVAR) using Ovation® Abdominal Stent Graft Systems. ENCORE is a pooled retrospective analysis of the six prospective clinical trial and registries and encompasses 1,296 patients, 160 centers and 339 investigators in the U.S., Europe and Latin America. Median patient follow-up across all ENCORE registries and trials was 883 days (range 30 days to five years). At five years, the ENCORE analysis included the following results for Ovation based on the available data:

•99.1% freedom from AAA-related mortality;
•99.0% freedom from reintervention for Type 1a endoleak;
•99.7% freedom from rupture;
•99.2% freedom from conversion; and
•96.4% freedom from all device-related reintervention.

Characteristics of Our Revenue and Expenses

Revenue

We derive revenue from sales of our EVAR and EVAS products (including extensions and accessories) through two channels: implant-based sales and shipment-based sales.
For implant-based sales, usually with hospitals, we recognize revenue when the AAA products are utilized in a procedure or implanted in a patient.
For shipment-based sales, usually with distributors, we recognize revenue when control over a product has transferred to the customer, which is typically at the time of shipment, without a right of return.

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, amortization of developed technology, 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 obtaining 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.

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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, and allocated facilities-related expenses.

Results of Operations

Operations Overview - Three Months Ended March 31, 2018 versus 2017

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

	Three Months Ended March 31,			
	2018		2017	
Revenue	$42,284	100.0%	$42,612	100.0%
Cost of goods sold	13,958	33.0%	13,970	32.8%
Gross profit	28,326	67.0%	28,642	67.2%
Operating expenses:				
Research and development	5,499	13.0%	5,530	13.0%
Clinical and regulatory affairs	3,571	8.4%	3,835	9.0%
Marketing and sales	21,725	51.4%	25,900	60.8%
General and administrative	10,369	24.5%	8,873	20.8%
Restructuring costs	233	0.6%	166	0.4%
Total operating expenses	41,397	97.9%	44,304	104.0%
Loss from operations	(13,071)	(30.9)%	(15,662)	(36.8)%
Total other income (expense)	(6,611)	(15.6)%	(5,498)	(12.9)%
Net loss before income tax expense	(19,682)	(46.5)%	(21,160)	(49.7)%
Income tax expense	(85)	(0.2)%	(154)	(0.4)%
Net loss	$(19,767)	(46.7)%	$(21,314)	(50.0)%

Comparison of the Three Months Ended March 31, 2018 versus 2017

Revenue

	Three Months Ended March 31,			
	2018	2017	Variance	Percent Change
	(in thousands)			
Revenue	$42,284	$42,612	$ (328)	(0.8)%

US Sales. Net sales totaled $29.4 million in the three months ended March 31, 2018, a 4.9% decrease from 30.9 million in net sales in three months ended March 31, 2017, driven by a decline in sales of our AFX products due to slower than expected customer recapture partially offset by strong sales growth for the Ovation System.

International Sales. Net sales of products in our international regions totaled $12.9 million in the three months ended March 31, 2018, a 10.1% increase from $11.7 million in net sales of products in our international regions in the three months ended March 31, 2017. AFX posted strong growth which was offset by a decline in Nellix sales reflecting the narrowed IFU. Our international sales for the three months ended March 31, 2018 included an unfavorable foreign currency impact of approximately $0.8 million when compared to the net sales for the three months ended March 31, 2017, which had a 6.8% favorable impact on the growth rate representing constant currency increase of 3.3%.

Cost of Goods Sold, Gross Profit, and Gross Margin

	Three Months Ended March 31,			
	2018	2017	Variance	Percent Change
	(in thousands)			
Cost of goods sold	$13,958	$13,970	$ (12)	(0.1)%
Gross profit	28,326	28,642	(316)	(1.1)%
Gross margin percentage (gross profit as a percent of revenue)	67.0%	67.2%		

Gross margin percentage for the three months ended March 31, 2018 decreased to 67.0% from 67.2% for the three months ended March 31, 2017. The decrease in cost of goods sold was attributable to more favorable production cost leverage on units sold in the three months ended March 31, 2018 compared to prior year period. This decrease was partially offset by unfavorable geographic mix and investments we are making on the operational side.

Operating Expenses

	Three Months Ended March 31,			
	2018	2017	Variance	Percent Change
	(in thousands)			
Research and development	$ 5,499	$ 5,530	$ (31)	(0.6)%
Clinical and regulatory affairs	3,571	3,835	(264)	(6.9)%
Marketing and sales	21,725	25,900	(4,175)	(16.1)%
General and administrative	10,369	8,873	1,496	16.9%
Restructuring costs	233	166	67	40.4%

Research and Development. The $31 thousand decrease in research and development expenses as compared to the prior year period was attributable to the timing of project spending.

Clinical and Regulatory Affairs. The decrease in clinical and regulatory affairs expenses as compared to the prior year period was due to timing of spend.

Marketing and Sales. The $4.2 million decrease in marketing and sales expenses for the three months ended March 31, 2018, as compared to the prior year period, was attributable to lower headcount and decrease in commissions expense.

General and Administrative. The $1.5 million increase in general and administrative expenses as compared to the prior year period was primarily attributable to increase in the costs related to our CEO search and ongoing litigation expenses.

Restructuring Costs. The $0.1 million increase in restructuring costs for the three months ended March 31, 2018, as compared to the prior year period, was attributable to continuation of right sizing of the organization.

Other income (expense), net

	Three Months Ended March 31,			
	2018	2017	Variance	Percent Change
	(in thousands)			
Other income (expense), net	$(6,611)	$(5,498)	$(1,113)	20.2%

Other Income (Expense), Net. Other expense of $6.6 million for the three months ended March 31, 2018 consists primarily of interest expense of $5.8 million, $2.3 million related to debt extinguishment and favorable change in fair value of contingent consideration related to the Nellix acquisition of $1.1 million. Other expense of $5.5 million for the three months ended March 31, 2017 consists primarily of interest expense associated with our convertible notes and a $1.2 million unfavorable change in fair value of contingent consideration related to the Nellix acquisition.

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Provision for Income Taxes

	Three Months Ended March 31,			
	2018	2017	Variance	Percent Change
	(in thousands)			
Income tax expense	$(85)	$(154)	$ 69	(44.8)%

Our income tax expense was $85 thousand and our effective tax rate was (0.4)% for the three months ended March 31, 2018 due to our tax positions in various jurisdictions. During the three months ended March 31, 2018 and 2017, we had operating legal entities in the U.S., Canada, Italy, New Zealand, Poland, Singapore 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 March 31, 2018, December 31, 2017, and March 31, 2017:

	March 31, 2018	December 31, 2017	March 31, 2017
	(in thousands, except financial metrics data)		
Cash, cash equivalents and restricted cash	$50,087	$ 60,599	$17,542
Marketable securities	$—	$ —	$18,496
Accounts receivable, net	$29,241	$ 32,294	$30,386
Total current assets	$128,694	$ 143,134	$112,956
Total current liabilities	$60,569	$ 60,630	$40,359
Working capital surplus (a)	$68,125	$ 82,504	$72,597
Current ratio (b)	2.1	2.4	2.8
Days sales outstanding ("DSO") (c)	62	68	64
Inventory turnover (d)	1.2	1.4	1.3

(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 three months ended March 31, 2018, our operating activities used $9.9 million in cash. This was primarily the result of a net loss of $19.8 million, non-cash operating expenses of $6.4 million, loss on debt extinguishment of $2.3 million, and changes in operating assets and liabilities of $1.3 million. In the three months ended March 31, 2017, our operating activities used $13.0 million in cash. This was primarily the result of a net loss of $21.3 million, non-cash operating expenses of $9.0 million, and changes in operating assets and liabilities of $0.7 million.

During the three months ended March 31, 2018 and 2017, our cash collections from customers totaled $45.8 million and $46.9 million, respectively, representing 108.2% and 110.0% of reported revenue for the same periods.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2018 was $0.2 million, as compared to cash provided by investing activities of $2.1 million in the prior year period. For the three months ended March 31, 2018, cash used in investing activities consisted of $0.2 million used for machinery and equipment purchases. For the three months ended March 31, 2017, cash provided by investing activities consisted of $2.5 million in maturities of marketable securities; offset by $0.4 million used for machinery and equipment purchases.

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Financing Activities

Cash used in financing activities was $0.6 million for the three months ended March 31, 2018, as compared to cash provided by financing activities of $0.1 million in the prior year period. For the three months ended March 31, 2018, cash used in financing activities for three months ended March 31, 2018 consisted of $1.3 million paid for extinguishment of debt offset by proceeds of $0.7 million from exercise of stock options. For the three months ended March 31, 2017, cash provided by financing activities consisted of $0.1 million from the exercise of stock options.

Credit Arrangements

See Notes 6 of the Notes to the Condensed Consolidated Financial Statements for a discussion of our credit arrangements.

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 March 31, 2018, these subsidiaries and branches held an aggregate of $8.1 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 may have to 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 have sufficient net operating losses to offset this potential tax liability.

If we require additional financing in the future, it may not be available on commercially reasonable terms, or 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.

Contractual Obligations

Contractual obligation payments by year with initial terms in excess of one year were as follows as of March 31, 2018 (in thousands):

	Payments due by period						
Contractual Obligations	Total	Remainder of 2018	2019	2020	2021	2022	2023 and thereafter
Long-term debt obligations	$263,278	$ 18,278	$—	$125,000	$40,000	$40,000	$ 40,000
Interest on Senior Notes and Term Loan	48,137	10,726	12,422	12,455	6,962	4,175	1,397
Operating lease obligations	35,667	2,658	3,661	3,826	3,701	3,800	18,021
Total	$347,082	$ 31,662	$16,083	$141,281	$50,663	$47,975	$ 59,418

Refer to Notes 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.

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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 March 31, 2018, 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.

Critical Accounting Policies and Estimates

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States. The preparation of the financial statements requires the use of judgments and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and shareholders' equity. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate. If these estimates differ significantly from actual results, the impact to the condensed consolidated financial statements may be material.

Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for a discussion of our critical accounting policies and estimates. For an updated discussion of our significant accounting policy surrounding revenue recognition as a result of the implementation of Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", please refer to Note 7 of the Notes to the Condensed Consolidated Financial Statement. There have been no other material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued 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. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. We adopted this new accounting standard in the first quarter of 2018. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for further discussion.

In February 2016, the FASB issued ASU No. 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. We are currently assessing the impact that this guidance will have on our 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. We retroactively adopted this new accounting standard during the first quarter of 2018. As a result of this new accounting guidance cash payments for debt extinguishment costs will be classified as cash outflows for financing activities instead of operating activities. The retrospective application of this new accounting guidance did not result in any change to our Condensed Consolidated Statement of Cash Flows as reported in our Form 10-Q for the three months ended March 31, 2017.

In October 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. We have assessed the impact that this guidance will have on our consolidated financial statements and noted that a cumulative-effect adjustment is not necessary in the first quarter of 2018, the period of adoption.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash," which is intended to reduce the diversity in the classification and presentation of changes in restricted cash in the statement of cash flows, by requiring entities to

combine the changes in cash and cash equivalents and restricted cash in one line. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. In addition, if more than one line item is recorded on the balance sheet for cash and cash equivalents and restricted cash, a reconciliation between the statement of cash flows and balance sheet is required. We retroactively adopted this new accounting standard during the first quarter of 2018. The

retrospective application of this new accounting guidance did not result in any change to our Condensed Consolidated Statement of Cash Flows as reported in our Form 10-Q for the three months ended March 31, 2017.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. This accounting standards update changes the procedural steps in applying the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is effective prospectively for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation: Scope of Modification Accounting,” which clarifies and aims to reduce the cost and complexity when applying the stock compensation modification accounting guidance. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. We prospectively adopted this new accounting standard in the first quarter of 2018, which did not result in any change to our consolidated financial statements. We will apply this guidance to applicable future transactions.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. This authoritative guidance permits a company to reclassify the income tax effects of the Tax Reform Act on items within accumulated other comprehensive income to retained earnings. The new guidance is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

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 were exposed to market risk for changes in interest rates on the MidCap Credit Facility. All outstanding amounts under the MidCap Credit Facility bore interest at a variable rate equal to LIBOR, plus 4.10%. On April 3, 2017, we replaced the MidCap Credit Facility with a new revolving line of credit with Deerfield ELGX Revolver, LLC (“Deerfield Revolver”), pursuant to which the Company could borrow up to the lesser of $50 million or its applicable borrowing base from time to time prior to March 31, 2020 (the “Revolver”) and paid $2.5 million in termination fees to MidCap. All outstanding principal under the Revolver bore interest at a rate equal to 3-month LIBOR (with a 1% floor) plus 4.60%. On January 5, 2018, the Company delivered a notice of termination to Deerfield for the Deerfield Revolver under the Credit and Security Agreement (the “Credit Agreement”), dated as of April 3, 2017. The termination of the Credit Agreement was effective on January 12, 2018 (the “Termination Date”) following payment by the Company of approximately $1.3 million in termination fees and related fees and expenses. The Company decided to terminate the Credit Agreement after it determined that it had failed to satisfy the required minimum net revenue threshold set forth in the Credit Agreement for the twelve months ended December 31, 2017.
Our Senior Notes and Term Loan 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 our common stock.
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 $0.3 million of gains during the three months ended March 31, 2018, respectively, primarily related to intercompany payables and receivables associated with our European operations. We expect to continue to limit our exposure through future settlements.

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.

There have been no 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 ended March 31, 2018 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 our 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.

Item 1A.Risk Factors.

Before deciding to invest in our Company, or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K filed with the SEC on March 13, 2018 and other reports that we have filed with the SEC. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also affect our business operations. If any of these risks are realized, our business, financial condition, or results of operations could be seriously harmed and, in that event, the market price for our common stock could decline and you may lose all or part of your investment.

These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Quarterly Report on Form 10-Q. These factors could cause actual results and conditions to differ materially from those projected in our forward-looking statements.

Risks Related to Our Business

All of our revenue is generated from a limited number of products, and any decline in the sales of these products will negatively impact our business.

We have focused heavily on the development and commercialization of a limited number of products for the treatment of AAA. If we are unable to continue to achieve and maintain market acceptance of these products and do not achieve sustained positive cash flow from operations, we will be constrained in our ability to fund development and commercialization of improvements and other product lines. In addition, if we are unable to market our products as a result of a manufacturing or quality problem or failure to maintain regulatory approvals, we would lose our only source of revenue and our business would be negatively affected.

We are in a highly competitive market segment, which is subject to rapid technological change. If our competitors are better able to develop and market products that are safer, more effective, less costly, easier to use, or otherwise more attractive than any products that we may develop, our business will be adversely impacted.

Our industry is highly competitive and subject to rapid technological change. Our success depends, in part, upon our ability to maintain a competitive position in the development of technologies and products for use in the treatment of AAA and other aortic disorders. We face competition from both established and development stage companies. Many of the companies developing or marketing competing products enjoy several advantages to us, including:

- greater financial and human resources for product development, sales and marketing and patent litigation;
- greater name recognition;
- long established relationships with physicians, customers, and third-party payors;
- additional lines of products, and the ability to offer rebates or bundle products to offer greater discounts or incentives;
- more established sales and marketing programs, and distribution networks;
- greater experience in conducting research and development, manufacturing, clinical trials, preparing regulatory submissions, and obtaining regulatory clearance or approval for products and marketing approved products; and
- greater buying power and influence with suppliers.

Our competitors may develop and patent processes or products earlier than us, obtain regulatory clearance or approvals for competing products more rapidly than us, and develop more effective or less expensive products or technologies that render our technology or products obsolete or less competitive. We also face fierce competition in recruiting and retaining qualified scientific, sales, and management personnel, establishing clinical trial sites and patient enrollment in clinical trials, as well as in acquiring technologies and technology licenses complementary to our products or advantageous to our business. If our competitors are more successful than us in these matters, our business may be harmed.

If third-party payors do not provide reimbursement for the use of our products, our revenues may be negatively impacted.

Our success in marketing our products depends in large part on whether domestic and international government health administrative authorities, private health insurers and other organizations will reimburse customers for the cost of our products. Reimbursement systems in international markets vary significantly by country and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis. Further, many international markets have government managed healthcare systems that control reimbursement for new devices and procedures. In most markets, there are private insurance systems as well as government-managed systems. If sufficient reimbursement is not available for our current or future products, in either the United States or internationally, the demand for our products may be adversely affected or we may decide to cease commercial activities in any such region.

We may never realize the expected benefits of our business combination transactions.

In addition to developing new products and growing our business internally, we have sought to grow through combinations with complementary businesses. Examples include our merger with TriVascular in 2016 and our merger with Nellix in 2010. Such business combination transactions involve risks, including the risk that we may fail to realize some or all of the anticipated benefits of the transaction. For example, the success of our business combination transactions largely depends on our ability to realize anticipated growth opportunities for existing products and potential new products. Our ability to realize these benefits, and the timing of this realization, depend upon a number of factors and future events, many of which we cannot control. These factors and events include, without limitation, with respect to the acquired products and technologies, the results of clinical trials, the receipt of applicable regulatory approvals, obtaining and maintaining intellectual property rights and further developing an effective sales and marketing organization in global markets. Although we carefully plan our business combination transactions, we may be unable to realize the expected benefits of such transactions.

Our success depends on the growth in the number of AAA patients treated with endovascular devices.

We estimate that over 200,000 people are diagnosed with AAA in the United States, and approximately 60,000 people undergo aneurysm repair, either via EVAR or open surgical repair, annually. Our growth will depend upon an increasing percentage of patients with AAA being diagnosed, and an increasing percentage of those diagnosed receiving EVAR, as opposed to an open surgical procedure. Initiatives to increase screening for AAA include SAAAVE, which was signed into law on February 8, 2006 in the United States. SAAAVE provides one-time AAA screening for men who have smoked some time in their life, and men or women who have a family history of the disease. Screening is provided as part of the “Welcome to Medicare” physical and such coverage began on January 1, 2007. Such general screening programs may never gain wide acceptance. The failure to diagnose more patients with AAA could negatively impact our revenue growth.

Our success depends on convincing physicians to use, and continue to use, our products in more endovascular AAA procedures and to assist us in development of new products.

If we are unable to continue convincing physicians to use our products, our business could be negatively impacted. Additionally, if we fail to maintain our working relationships with health care professionals, many of our products may not be developed and marketed in line with the needs and expectations of the professionals who use and support our products, which could cause a decline in our financial performance. The research, development, marketing, and sales of many of our new and improved products is dependent upon our maintaining working relationships with health care professionals. We rely on these

professionals to provide us with considerable knowledge and experience regarding the development, marketing, and sale of our products. Physicians assist us as researchers, marketing and product consultants, inventors, and public speakers. If we are unable to maintain our strong relationships with these professionals and continue to receive their advice and input, the development and marketing of our products could suffer, which could have a material adverse effect on our consolidated earnings, financial condition, and/or cash flows.

Manufacturing and quality problems with our products could harm our reputation and erode our competitive advantage, sales, and market share.

The manufacture of many of our products is highly complex and subject to strict quality controls, due in part to rigorous regulatory requirements. In addition, quality is extremely important due to the serious and costly consequences of a product failure. Problems can arise during the manufacturing process for a number of reasons, including equipment malfunction, failure to follow protocols and procedures, raw material problems or human error. If these problems arise or if we otherwise fail to meet our internal quality standards or those of the FDA or other applicable regulatory bodies, which include detailed record-keeping requirements, our reputation could be damaged, we could become subject to a safety alert or a recall, we could incur product liability and other costs, product approvals could be delayed, suspended or revoked and our business could otherwise be adversely affected.

If we or our third-party vendors fail to comply with extensive FDA regulations relating to the manufacturing of our products or any component part, we could harm our reputation, we may be subject to fines, injunctions and penalties, and our ability to commercially distribute and sell our products may be hurt.

Our manufacturing facilities and the manufacturing facilities of any of our third-party component manufacturers, critical suppliers or third-party sterilization facilities are required to comply with FDA's Quality System Regulation (QSR) which sets forth minimum standards for the procedures, execution and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of the products we sell. FDA may evaluate our compliance with the QSR, among other ways, through periodic announced or unannounced inspections, which could disrupt our operations and interrupt our manufacturing. If in conducting an inspection of our manufacturing facilities or the manufacturing facilities of any of our third-party component manufacturers, critical suppliers or third-party sterilization facilities, an FDA investigator observes conditions or practices believed to violate the QSR, the investigator may document their observations on a Form FDA-483 that is issued at the conclusion of the inspection. Failure to take adequate and timely corrective actions to remedy objectionable conditions listed on an FDA-483 could result in FDA taking administrative or enforcement actions, including seizure, injunction and criminal prosecution, which could result in total or partial suspension of a facility's production and/or distribution, product recalls, fines, suspension of FDA's review of product applications and FDA's issuance of adverse publicity. Thus, an adverse inspection could force a shutdown of our manufacturing operations or a recall of our products. Adverse inspections could also delay or lead to revocation of FDA approval of our products and could have an adverse effect on our production, sales and profitability.

We and any of our third-party vendors may also encounter other problems during manufacturing including failure to follow specific protocols and procedures, equipment malfunction and environmental factors, any of which could delay or impede our ability to meet demand. The manufacture of our product also subjects us to risks that could harm our business, including problems relating to the sterilization of our products or facilities and errors in manufacturing components that could negatively affect the efficacy or safety of our products or cause delays in shipment of our products. Any interruption or delay in the manufacture of the product or any of its components could impair our ability to meet the demand of our customers and cause them to cancel orders or switch to competitive products and could, therefore, have a material adverse effect on our business, financial condition and results of operations.

Our international operations involve operating risks, which could adversely impact our net sales, results of operations, and financial condition.

Sales of our products outside the United States represented approximately 32% of our revenue in 2017. As of December 31, 2017, we sold our products through 41 distributors located in the following countries outside of the United States: Argentina, Brazil, Chile, Columbia, Czech Republic, Israel, Japan, Mexico, Canada, Austria, Latvia, Romania, Poland, Sweden, Switzerland, Portugal, Spain, Slovakia, Italy, Hungary, Greece, Thailand, Singapore, Hong Kong, Russia, Cyprus, Ecuador, Australia, Turkey and South Korea. The sales territories authorized within these

various distribution agreements cover a total of 54 countries. The sale and shipment of our products across international borders, as well as the purchase of components and products from international sources, subjects us to extensive United States and foreign governmental trade, import and export, and custom regulations and laws. Pursuant to the SEC rules regarding disclosure of the use of certain minerals in our products, known as "conflict minerals," which are mined from the Democratic Republic of the Congo and adjoining countries, we are now required to disclose the procedures we employ to determine the sourcing of such minerals and metals produced from those minerals. The

implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. Although we intend to disclose that we utilized certain of the four conflict minerals in our products in our conflict minerals report for the 2017 calendar year, we have been unable in all instances to determine that our sources of these minerals have been certified as “conflict free.” We may continue to face difficulties in gathering this information in the future.

Compliance with these regulations is costly and exposes us to penalties for non-compliance. Other laws and regulations that can significantly impact us include various anti-bribery laws, including the United States Foreign Corrupt Practices Act and anti-boycott laws and similar laws in foreign jurisdictions. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities, and exclusion or debarment from government contracting. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping and sales activities, including as the result of the loss of one or more of our product registrations in these foreign jurisdictions. We may determine not to renew one or more of our product registrations in foreign jurisdictions at this time given the meaningful costs of renewing such registrations, including opportunity costs of allocating necessary resources to these renewals, when measured against the potential market opportunities. We and our distributors are required to expend considerable resources to comply with the laws of foreign jurisdictions in which our products are sold. These legal, regulatory and other requirements, individually and in the aggregate, may impact our decisions regarding where to obtain or maintain our product registrations and the determination not to obtain or maintain a product registration in a certain country or territory may have a negative impact on our relationship with our distributors.

Substantially all of our sales outside of the United States are denominated in local currencies and not in United States dollars. Measured in local currency, a substantial portion of our international sales was generated in Europe (and primarily denominated in the Euro) and in Japan. The United States dollar value of our international sales varies with currency exchange rate fluctuations. Decreases in the value of the United States dollar to the Euro or the British Pound Sterling have the effect of increasing our reported revenues even when the volume of international sales has remained constant. Increases in the value of the United States dollar relative to the Euro or the British Pound Sterling, as well as other currencies, have the opposite effect and, if significant, could have a material adverse effect on our reported revenues and results of operations.

In addition, many of the countries in which we sell our products are, to some degree, subject to political, economic or social instability. Our international operations expose us and our distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- difficulties in enforcing or defending intellectual property rights;
- pricing pressure that we may experience internationally;
- a shortage of high-quality sales people and distributors;
- changes in third-party reimbursement policies that may require some of the patients who receive our products to directly absorb medical costs or that may necessitate the reduction of the selling prices of our products;
- the imposition of additional United States and foreign governmental controls or regulations;
- economic instability;
- changes in duties and tariffs, license obligations and other non-tariff barriers to trade;
- the imposition of restrictions on the activities of foreign agents, representatives and distributors;
- scrutiny of foreign tax authorities which could result in significant fines, penalties and additional taxes being imposed on us;
- laws and business practices favoring local companies;
- longer payment cycles;
- difficulties in maintaining consistency with our internal guidelines;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- the imposition of costly and lengthy new export licensing requirements;
-

the imposition of United States or international sanctions against a country, company, person or entity with whom we do business that would restrict or prohibit continued business with the sanctioned country, company, person or entity; and

- the imposition of new trade restrictions.

If we experience any of these risks, our sales in international countries may be harmed and our results of operations would suffer.

We depend on our officers and other skilled and experienced personnel to operate our business effectively. If we are not able to retain our current employees or recruit additional qualified personnel, our business will suffer and our future revenue and profitability will be impaired.

We are highly dependent on the skills and experience of our executive officers and key employees. We do not have any insurance in the event of the death or disability of our key personnel. In most cases, our officers and key employees may terminate their employment and work elsewhere without notice and without cause or good reason. Due to the specialized knowledge of each of our officers with respect to our products and operations, and the limited pool of people with relevant experience in the medical device field, the loss of service of one or more of these individuals could significantly affect our ability to operate and manage our business. The announcement of the loss of one or more of our key personnel could negatively affect our stock price.

On May 2, 2018 we announced the appointment of John Onopchenko, previously our Chief Operating Officer, as our new Chief Executive Officer, succeeding John McDermott. We believe that Mr. Onopchenko's skills and experience are important to the success of the Company. The loss of Mr. Onopchenko's services could significantly affect our ability to operate and manage our business and could negatively affect our stock price.

We depend on our scientific and technical personnel for successful product development and innovation, which are critical to the success of our business. In addition, to succeed in the implementation of our business strategy, our management team must rapidly execute our sales strategy, obtain anticipated FDA clearances and approvals, achieve market acceptance for our products and further develop products, while addressing our strategic objectives through the implementation and enhancement of effective planning, manufacturing and operating processes. We compete for talented personnel against companies with more expansive product offerings and greater technical and financial resources. Successfully managing our business will require us to attract and retain talented and experienced management and technical personnel, but there is no guaranty that we will be able to hire or retain such personnel.

If we fail to develop and retain our direct sales force, our business could suffer.

We have a direct sales force in the United States and in certain European countries. We also utilize a network of third-party distributors for sales outside of the United States. As we launch new products and increase our marketing efforts with respect to existing products, we will need to retain and develop our direct sales personnel to build upon their experience with our products, and their relationships with customers. There is significant competition for sales personnel experienced in relevant medical device sales and departure of high-performing sales personnel can lead to loss of revenues. If we are unable to attract, motivate, develop, and retain qualified sales personnel and thereby grow our sales force, we may not be able to maintain or increase our revenues.

The actions and omissions of our third-party distributors may cause us to incur revenue, compliance and other risk.

We depend in part on medical device distributors and strategic relationships for the marketing and selling of our products outside of the United States and outside of certain countries in Europe. We depend on these distributors' efforts to market our products effectively and in accordance with all applicable laws, rules and regulations, yet we are unable to control their efforts completely. For instance, if our distributors fail to provide timely quality, regulatory or other required notifications, including with respect to adverse events or other matters potentially affecting patient safety, then we could incur risk, including the risk of non-compliance with applicable FDA regulations or the regulations of the foreign jurisdiction(s) in which the distributors sell our products and our business could suffer. In addition, we are unable to ensure that our distributors comply with all applicable laws regarding the sale of our products, including marketing and promotion of our products in accordance with applicable laws and regulations. If our distributors fail to effectively market and sell our products, and in full compliance with applicable laws, our operating results and business may suffer.

If clinical trials of our current or future products do not produce results necessary to support regulatory clearance or approval in the United States or elsewhere, we will be unable to commercialize these products.

We are currently conducting clinical trials. We will likely need to conduct additional clinical trials in the future to support new product approvals, for the approval for new indications for the use of our products, or support the use of existing products. Clinical testing is expensive, and typically takes many years, and carries uncertain outcomes. The initiation and completion of any of these studies may be prevented, delayed, or halted for numerous reasons, including, but not limited to, the following:

- the FDA, institutional review boards or other regulatory authorities do not approve a clinical study protocol, force us to modify a previously approved protocol, or place a clinical study on hold;
- patients do not enroll in, or enroll at the expected rate, or complete a clinical study;
- patients or investigators do not comply with study protocols;
- patients do not return for post-treatment follow-up at the expected rate;

- patients experience serious or unexpected adverse side effects for a variety of reasons that may or may not be related to our products such as the advanced stage of co-morbidities that may exist at the time of treatment, causing a clinical study to be put on hold or terminated.
- sites participating in an ongoing clinical study may withdraw, requiring us to engage new sites;
- difficulties or delays associated with establishing additional clinical sites;
- third-party clinical investigators decline to participate in our clinical studies, do not perform the clinical studies on the anticipated schedule, or are inconsistent with the investigator agreement, clinical study protocol, good clinical practices, and other FDA and Institutional Review Board requirements;
- Failure to complete data collection analysis in a timely or accurate manner;
- regulatory inspections of our clinical studies require us to undertake corrective action or suspend or terminate our clinical studies;
- changes in federal, state, or foreign governmental statutes, regulations or policies;
- interim results are inconclusive or unfavorable as to immediate and long-term safety or efficacy;
- the study design is inadequate to demonstrate safety and efficacy; or
- the results of the study do not meet the study endpoints.

Clinical failure can occur at any stage of the testing. Our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or non-clinical testing in addition to those we have planned. Our failure to adequately demonstrate the efficacy and safety of any of our devices would prevent receipt of regulatory clearance or approval and, ultimately, the commercialization of that device or indication for use.

We rely on single vendors to supply several components for our product lines, and any disruption in the supply of such materials could impair our ability to manufacture our products or meet customer demand for our products in a timely and cost effective manner.

Our reliance on single source suppliers exposes our operations to disruptions in supply caused by:

- failure of our suppliers to comply with regulatory requirements;
- any strike or work stoppage;
- disruptions in shipping;
- a natural disaster caused by fire, flood or earthquakes; or
- a supply shortage experienced by a single source supplier.

Although we take reasonable efforts to mitigate risk, a significant extending interruption from key suppliers could impact our ability to manufacture and adversely affect our business, financial condition, and results of operations.

If we are unable to protect our intellectual property, our business may be negatively affected.

Our success depends significantly on our ability to protect our intellectual property and proprietary technologies. Our policy is to obtain and protect our intellectual property rights. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality and other contractual restrictions, to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our pending United States and foreign patent applications may not issue as patents or may not issue in a form that will be advantageous to us. Any patents we have obtained, or will obtain, may be challenged by re-examination, inter partes review, opposition or other administrative proceeding, or in litigation. Such challenges could result in a determination that the patent is invalid. In addition, competitors may be able to design alternative methods or devices that avoid infringement of our patents. To the extent our intellectual property protection offers inadequate protection, or is found to be invalid, we are exposed to a greater risk of direct competition. If our intellectual property does not provide adequate protection against our competitors' products, our competitive position could be adversely affected, as could our business. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Furthermore, the laws of some foreign countries may not protect our intellectual property rights to the same extent, as do the laws of the United States. In addition, changes in United States patent laws could prevent or limit us from filing patent applications or patent claims to protect our products and/or technologies or limit the exclusivity periods that are available to patent holders.

We also own trade secrets and confidential information that we try to protect by entering into confidentiality agreements and intellectual property assignment agreements with our employees, consultants and other parties. However, such agreements may

not be honored or, if breached, we may not have sufficient remedies to protect our confidential information. Further, our competitors may independently learn our trade secrets or develop similar or superior technologies. To the extent that our employees, consultants or others apply technological information to our projects that they develop independently or others develop, disputes may arise regarding the ownership of proprietary rights to such information, and such disputes may not be resolved in our favor. If we are unable to protect our intellectual property adequately, our business and commercial prospects will likely suffer.

The medical device industry is subject to extensive patent litigation, and if our products or processes infringe upon the intellectual property of third parties, the sale of our products may be challenged and we may have to defend costly and time-consuming infringement claims.

We may need to engage in expensive and prolonged litigation to assert or defend any of our intellectual property rights or to determine the scope and validity of rights claimed by other parties. With no certainty as to the outcome, litigation could be too expensive for us to pursue. Our failure to prevail in such litigation or our failure to pursue litigation could result in the loss of our rights that could substantially hurt our business. In addition, the laws of some foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States, if at all.

Our failure to obtain rights to intellectual property of third parties, or the potential for intellectual property litigation, could force us to do one or more of the following:

- stop selling, making, or using products that use the disputed intellectual property;
- obtain a license from the intellectual property owner to continue selling, making, licensing, or using products, which license may not be available on reasonable terms, or at all;
- redesign our products, processes or services; or
- subject us to significant liabilities to third parties.

If any of the foregoing occurs, we may be unable to manufacture and sell our products and may suffer severe financial harm. Whether or not an intellectual property claim is valid, the cost of responding to it, in terms of legal fees and expenses and the diversion of management resources, could harm our business.

We may face product liability claims that could result in costly litigation and significant liabilities.

The manufacture, marketing and sale of our commercial products, and the clinical testing of our products under development, may expose us to significant risk of product liability claims. In the past, we have had a small number of product liability claims relating to our products, none of which either individually, or in the aggregate, have resulted in a material negative impact on our business. In the future, we may be subject to additional product liability claims, some of which may have a negative impact on our business. Such claims could divert our management from pursuing our business strategy and may be costly to defend. Regardless of the merit or eventual outcome, product liability claims may result in:

- decreased demand for our products;
- injury to our reputation;
- injury to our relationships with our customers;
- significant litigation and other costs;
- substantial monetary awards to or costly settlements with patients;
- product recalls;
- loss of revenue; and
- the inability to commercialize new products.

Although we have, and intend to maintain, product liability insurance, the coverage limits of our insurance policies may not be adequate to protect us from any liabilities we may incur, and one or more claims brought against us for uninsured liabilities or in excess of our insurance coverage may have a material adverse effect on our business and results of operations. In addition, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against losses. Any claims against us, regardless of their merit, could severely harm our reputation and financial condition, strain our management and other resources and adversely affect or eliminate the prospects for commercialization or sales of a product which is the subject of any such claim. In addition, a recall of our products, whether or not as a result of a product liability claim, could result in decreased

demand for our products, injury to our reputation, significant litigation and other costs, substantial monetary awards to or costly settlements with patients, loss of revenue and our inability to commercialize new products or product candidates.

We currently are involved in litigation, and may face future claims, that could adversely affect our business and financial condition, divert management's attention from our business, and subject us to significant liabilities.

On January 3, 2017, a stockholder purporting to represent a class of persons who purchased our securities between August 2, 2016 and November 16, 2016, filed a lawsuit against us and certain of our officers in the United States District Court for the Central District of California. The lawsuit alleges that we made materially false and misleading statements and failed to disclose material adverse facts about our business, operational and financial performance, in violation of federal securities laws, relating to FDA PMA for our Nellix EVAS System. On January 11, 2017, a second stockholder filed a similar lawsuit against us and certain of our officers in the United States District Court for the Central District of California. The plaintiffs sought unspecified monetary damages on behalf of the alleged class, interest, and attorney's fees and costs of litigation. The first lawsuit, Nguyen v. Endologix, Inc. et al., Case No. 2:17-cv-0017 AB (PLAx) (C.D. Cal.), was consolidated with the second lawsuit, Ahmed v. Endologix, Inc. et al, Case No. 8:17-cv-00061 AB (PLAx) (C.D. Cal.), and lead Nguyen plaintiff filed a consolidated First Amended Complaint. On December 5, 2017, the District Court granted Endologix's motion to dismiss lead plaintiff's First Amended Complaint, with leave to amend. On January 9, 2018, lead plaintiff filed a Second Amended Complaint.

Four shareholders have filed derivative lawsuits on behalf of Endologix, the nominal plaintiff, based on allegations substantially similar to those alleged by lead plaintiff in Nguyen. Those actions consist of: Sindlinger v. McDermott et al., Case No. BC662280 (Los Angeles Superior Court); Abraham v. McDermott et al., Case No. 30-2018-00968971-CU-BT-CSC (Orange County Superior Court); and Green v. McDermott et al., Case No. 8:17-cv-01155-AB (PLAx), which has been consolidated with Cocco v. McDermott et al., Case No. 8:17-cv-01183-AB (PLAx) (C.D. Cal.).

Although we believe that these lawsuits are without merit and intend to defend ourselves vigorously, we are not able to predict the ultimate outcome of these lawsuits. It is possible that they could cause us to incur substantial costs and that they could be resolved adversely to us, result in substantial damages, result in or be connected to additional claims, and divert management's attention and resources, any of which could harm our business. While we maintain director and officer liability insurance, the amount of insurance coverage may not be sufficient to cover these claims and other claims to which we may become subject, and the continued availability of this insurance cannot be assured. Protracted litigation, including any adverse outcomes, may have an adverse impact on our business, results of operations or financial condition and could subject us to adverse publicity and require us to incur significant legal fees.

In July 2017, we learned that the SEC issued a Formal Order of Investigation to investigate, among other things, events surrounding the Nellix EVAS System and the prospect of its FDA pre-market approval. We are fully cooperating with the investigation but cannot predict its outcome or the timing of the investigation's conclusions.

If our facilities or systems are damaged or destroyed, we may experience delays that could negatively impact our revenues or have other adverse effects.

Our facilities and systems may be affected by natural or man-made disasters. We currently conduct our manufacturing, development and management activities in Santa Rosa, California and Irvine, California, near known earthquake fault zones and seasonal wildfire activity. Our finished goods inventory is split between our Santa Rosa and Irvine locations and our distribution centers in Memphis, Tennessee and Tilburg, The Netherlands. We have taken precautions to safeguard our facilities and systems, including insurance, health and safety protocols, and off-site storage of computer data. However, our facilities and systems may be vulnerable to earthquakes, fire, storm, power loss, telecommunications failures, physical and software break-ins, software viruses and similar events which could cause substantial delays in our operations, damage or destroy our equipment or inventory, and cause us to incur additional expenses. In addition, the insurance coverage we maintain may not be adequate to cover our losses in any particular case and may not continue to be available to use on acceptable terms, or at all.

Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions, or data corruption could significantly disrupt our operations and adversely affect our business and operating results.

We rely on information technology and telephone networks and systems, including the Internet, to process and transmit sensitive electronic information and to manage or support a variety of business processes and activities, including sales, billing, customer service, procurement and supply chain, manufacturing, and distribution. We use enterprise information technology systems to record, process, and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal, and tax requirements. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors or catastrophic events. We are not aware of any breaches of our information technology infrastructure. Despite the precautionary measures we have taken to prevent breakdowns in our information technology and telephone systems, if our systems suffer severe damage, disruption or shutdown and we are unable to effectively resolve the issues in a timely manner, our business and operating results may suffer.

We are subject to credit risk from our accounts receivable related to our product sales, which include sales within European countries that are currently experiencing economic turmoil.

The majority of our accounts receivable arise from product sales in the United States. However, we also have significant receivable balances from customers within the European Union, Japan, Brazil, and Argentina. Our accounts receivable in the United States are primarily due from public and private hospitals. Our accounts receivable outside of the United States are primarily due from public and private hospitals and to a lesser extent independent distributors. Our historical write-offs of accounts receivable have not been significant.

We monitor the financial performance and credit worthiness of our customers so that we can properly assess and respond to changes in their credit profile. Our independent distributors and sub-dealers operate in certain countries such as Greece and Italy, where economic conditions continue to present challenges to their businesses, and thus, could place in risk the amounts due to us from them. These distributors are owed amounts from public hospitals that are funded by their governments. Adverse financial conditions in these countries may continue, thus negatively affecting the length of time that it will take us to collect associated accounts receivable, or impact the likelihood of ultimate collection.

Consolidation in the health care industry could have an adverse effect on our revenues and results of operations.

The health care industry has been consolidating, and organizations such as GPOs, independent delivery networks, and large single accounts continue to consolidate purchasing decisions for many of our health care provider customers. As a result, transactions with customers are larger, more complex, and tend to involve more long-term contracts. The purchasing power of these larger customers has increased, and may continue to increase, causing downward pressure on product pricing. If we are not one of the providers selected by one of these organizations, we may be precluded from making sales to its members or participants. Even if we are one of the selected providers, we may be at a disadvantage relative to other selected providers that are able to offer volume discounts based on purchases of a broader range of medical equipment and supplies. Further, we may be required to commit to pricing that has a material adverse effect on our revenues and profit margins, business, financial condition and results of operations. We expect that market demand, governmental regulation, third-party reimbursement policies and societal pressures will continue to change the worldwide health care industry, resulting in further business consolidations and alliances, which may exert further downward pressure on the prices of our products and could adversely impact our business, financial condition, and results of operations.

If any future acquisitions or business development efforts are unsuccessful, our business may be harmed.

As part of our business strategy to be an innovative leader in the treatment of aortic disorders, we may need to acquire other companies, technologies, and product lines in the future. Acquisitions involve numerous risks, including the following:

- the possibility that we will pay more than the value we derive from the acquisition, which could result in future non-cash impairment charges;
- difficulties in integration of the operations, technologies, and products of the acquired companies, which may require significant attention of our management that otherwise would be available for the ongoing development of our business;
- the assumption of certain known and unknown liabilities of the acquired companies; and
- difficulties in retaining key relationships with employees, customers, partners, and suppliers of the acquired company.

In addition, we may invest in new technologies that may not succeed in the marketplace. If they are not successful, we may be unable to recover our initial investment, which could include the cost of acquiring the license, funding development efforts, acquiring products, or purchasing inventory. Any of these would negatively impact our future growth and cash reserves.

Risks Related to Our Financial Condition

We have a history of operating losses and may be required to obtain additional funds to pursue our business strategy.

We have a history of operating losses and may need to seek additional capital in the future. We believe that our existing liquidity will be sufficient to meet our anticipated cash needs for at least the next 12 to 24 months. However, we may need to obtain additional financing to pursue our business strategy, to respond to new competitive pressures or to act on opportunities to acquire or invest in complementary businesses, products or technologies. Our cash

requirements in the future may be significantly different from our current estimates and depend on many factors, including:

- the results of our commercialization efforts for our existing and future products;
- the revenues generated by sales of our existing and future products;

- the need for additional capital to fund existing and future development programs;
- the need to adapt to changing technologies and technical requirements, and the costs related thereto;
- the costs involved in obtaining and enforcing patents or any litigation by third parties regarding intellectual property;
- the establishment of high volume manufacturing and increased sales and marketing capabilities; and
- whether we are successful if we enter into collaborative relationships with other parties.

In addition, we are required to make periodic interest payments to the holders of our senior convertible notes and term loan and to make payments of principal upon conversion or maturity. We may also be required to purchase our senior convertible notes from the holders thereof upon the occurrence of a fundamental change involving our company. To finance the foregoing, we may seek funds through borrowings or through additional rounds of financing, including private or public equity or debt offerings and collaborative arrangements with corporate partners. We may be unable to raise funds on favorable terms, or at all.

The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. If we borrow additional funds or issue debt securities, these securities could have rights superior to holders of our common stock, and could contain covenants that will restrict our operations. We might have to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to our technologies, product candidates, or products that we otherwise would not relinquish. If we do not obtain additional resources, our ability to capitalize on business opportunities will be limited, and the growth of our business will be harmed.

Changes in the credit environment and covenant restrictions under our financing arrangements may adversely affect our business and financial condition.

Future volatility in the global financial markets could increase borrowing costs or affect our ability to access the capital markets. Further, our ability to enter into or maintain existing financing arrangements on acceptable terms, including our Facility Agreement with Deerfield in respect of our $120,000,000 term loan from Deerfield, could be adversely affected if there is a material decline in the demand for our products or the prices that we can command for our products, our customers become insolvent or decide to reduce or discontinue their purchase of our products, we encounter significant regulatory, quality, manufacturing or compliance issues, or any other material adverse event occurs that impacts our business. Any deterioration in our key financial ratios, or non-compliance with certain financial, reporting, regulatory or other covenants or terms in existing or future loan or credit agreements, including the Facility Agreement with Deerfield, may result in an event of default under such agreements, which also could adversely affect our business and financial condition.

The occurrence of an event of default under our Facility Agreement with Deerfield could result in an increase to the applicable interest rate, an acceleration of all obligations, a requirement to repay all obligations in full and a right by Deerfield to exercise all remedies available to them. If we are unable to pay those amounts, Deerfield could proceed against the collateral granted to it pursuant to the Loan Agreement. and we may in turn lose access to our any sources of borrowing availability we may have. Any declaration of an event of default by Deerfield could also trigger an event of default under our outstanding convertible senior notes requiring the repayment of principal and interest outstanding under such notes.

We have limited resources to invest in research and development and to grow our business and may need to raise additional funds in the future for these activities.

We believe that our growth will depend, in significant part, on our ability to develop new technologies for the treatment of AAA and other aortic disorders, and technology complementary to our current products. Our existing resources may not allow us to conduct all of the research and development activities that we believe would be beneficial for our future growth. As a result, we may need to seek funds in the future to finance these activities. If we are unable to raise funds on favorable terms, or at all, we may not be able to increase our research and development activities and the growth of our business may be negatively impacted.

The accounting method for convertible debt securities that may be settled in cash, such as our senior convertible notes, could have a material effect on our reported financial results.

In May 2008, FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC

470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as our senior convertible notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for our senior convertible notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheets and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of such notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of

the accretion of the discounted carrying value of our senior convertible notes to their face amount over the term of such notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's accretion of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results and the market price of our common stock.

In addition, under certain circumstances, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our debt.

Our ability to make scheduled payments of the principal of, to pay interest on, to pay any cash due upon conversion of or to refinance our indebtedness, including the senior convertible notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

The expense and potential unavailability of insurance coverage for our company may have an adverse effect on our financial position and results of operations.

While we currently have insurance for our business, property, directors and officers, and product liability, such insurance coverage is increasingly costly and the scope of coverage is narrower, and we may be required to assume more risk in the future. If we are subject to claims or suffer a loss or damage in excess of our insurance coverage, we will be required to cover the amounts outside of or in excess of our insurance limits. If we are subject to claims or suffer a loss or damage that is outside of our insurance coverage, we may incur significant costs associated with loss or damage that could have an adverse effect on our financial position and results of operations. Furthermore, any claims made on our insurance policies may impact our ability to obtain or maintain insurance coverage at reasonable costs or at all. We do not have the financial resources to self-insure, and it is unlikely that we will have these financial resources in the foreseeable future. Our product liability insurance covers our products and business operations, but we may need to increase and expand this coverage commensurate with our expanding business.

Risks Related to Regulation of Our Industry

Healthcare policy changes, including recent federal legislation to reform the United States healthcare system, may have a material adverse effect on us.

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators and third-party payors to control these costs and, more generally, to reform the United States healthcare system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products and could limit the acceptance and availability of our products. Moreover, as discussed below, recent federal legislation would impose significant new taxes on medical device makers such as us. The adoption of some or all of these proposals, including the recent federal legislation, could have a material adverse effect on our financial position and results of operations.

On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (the "PPACA"). The total cost imposed on the medical device industry by the PPACA may be up to approximately $20 billion over ten years. The PPACA includes, among

other things, a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions, effective January 1, 2013. This excise tax will result in a significant increase in the tax burden on our industry, and if any efforts we undertake to offset the excise tax are unsuccessful, the increased tax burden could have an adverse effect on our results of operations and cash flows. Other elements of the PPACA, including comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions, may significantly affect the payment for, and the availability of, healthcare services and result in fundamental changes to federal healthcare reimbursement programs, any of which may materially affect numerous aspects of our business.

On December 18, 2015, President Obama signed the Consolidated Appropriations Act of 2016, which imposed a two-year moratorium on the 2.3% excise tax beginning on January 1, 2016 and ending on December 31, 2017. On January 22, 2018, the continuing resolution extended this moratorium for an additional two years, through the 2019 calendar year. The continuing resolution provides that this additional delay applies to sales made after December 31, 2017. Therefore, as a result of both moratoriums, the medical devices tax will not apply to any sales made between January 1, 2016 and December 31, 2019. Upon the end of this period we believe the PPACA could continue to have an adverse effect on our results of operations and cash flows.

Our future success depends on our ability to develop, receive regulatory clearance or approval for, and introduce new products or product enhancements that will be accepted by the market in a timely manner.

It is important to our business that we continue to build a more complete product offering for treatment of AAA and other aortic disorders. As such, our success will depend in part on our ability to develop and introduce new products. However, we may not be able to successfully develop and obtain regulatory clearance or approval for product enhancements, or new products, or these products may not be accepted by physicians or the payors who financially support many of the procedures performed with our products.

The success of any new product offering or enhancement to an existing product will depend on several factors, including our ability to:

- properly identify and anticipate physicians and patient needs;
- develop and introduce new products or product enhancements in a timely manner;
- avoid infringing upon the intellectual property rights of third parties;
- demonstrate, if required, the safety and efficacy of new products with data from preclinical studies and clinical trials;
- obtain the necessary regulatory clearances or approvals for new products or product enhancements;
- be fully FDA-compliant with marketing of new devices or modified products;
- provide adequate training to potential users of our products;
- receive adequate coverage and reimbursement for procedures performed with our products; and
- develop an effective and FDA-compliant, dedicated marketing and distribution network.

If we do not develop new products or product enhancements in time to meet market demand or if there is insufficient demand for these products or enhancements, our results of operations will suffer.

Our business is subject to extensive governmental regulation that could make it more expensive and time consuming for us to introduce new or improved products.

Our products must comply with regulatory requirements imposed by the FDA in the United States, and similar agencies in foreign jurisdictions. These requirements involve lengthy and detailed laboratory and clinical testing procedures, sampling activities, an extensive agency review process, and other costly and time-consuming procedures. It often takes several years to satisfy these requirements, depending on the complexity and novelty of the product. We also are subject to numerous additional licensing and regulatory requirements relating to safe working conditions, manufacturing practices, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. Some of the most important requirements we face include:

- FDA Regulations (Title 21 CFR);
- European Union CE mark requirements, including the new Medical Device Regulations and MEDDEV 2.7.1 Rev.4, which implement stricter requirements for clinical data to support new product approvals;
- Other international regulatory approval requirements;
- Medical Device Single Audit Program (“MDSAP”);
- Medical Device Quality Management System Requirements (21 CFR 820, ISO 13485:2003, EN ISO 13485:2012, ISO 13485:2016, and other similar international regulations);
- Occupational Safety and Health Administration requirements; and
- California Department of Health Services requirements.

Government regulation may impede our ability to conduct continuing clinical trials and to manufacture our existing and future products. Government regulation also could delay our marketing of new products for a considerable period

of time and

impose costly procedures on our activities. The FDA and other regulatory agencies may not approve any of our future products on a timely basis, if at all. Any delay in obtaining, or failure to obtain, such approvals could negatively impact our marketing of any proposed products and reduce our product revenues.

Our products remain subject to strict regulatory controls on manufacturing, marketing and use. We may be forced to modify or recall our product after release in response to regulatory action or unanticipated difficulties encountered in general use. Any such action could have a material effect on the reputation of our products and on our business and financial position.

Further, regulations may change, and any additional regulation could limit or restrict our ability to use any of our technologies, which could harm our business. We could also be subject to new international, federal, state or local regulations that could affect our research and development programs and harm our business in unforeseen ways. If this happens, we may have to incur significant costs to comply with such laws and regulations, which will harm our results of operations.

The potential off-label promotion and subsequent off-label use of our products may harm our image in the marketplace and result in government investigations and/or penalties.

The products we market have been cleared or approved by the FDA and international regulatory authorities for specific indications for use, including in specific AAA anatomies. Physicians have the discretion, however, to use our products outside of those cleared/approved indications for use, a practice known as “off-label” use. Off-label use of our and our competitors’ products by physicians is common in the AAA field. We receive substantial revenue from the sale of our products for use by physicians in cases outside of the cleared/approved indications for use. Though physicians in most countries, including the United States, have the discretion to engage in off-label use of our products, FDA laws and regulations prohibit us from promoting our products for an unapproved use.

Our internal policies and procedures are designed to achieve compliance with these and other applicable requirements, but FDA or other regulatory authorities could determine that our sales, marketing, and educational activities, when evaluated in connection with the use of our products in off-label procedures, constitute the unlawful promotion of our products for unapproved use. If we are deemed by the FDA or other regulatory bodies to have engaged in the promotion of our products for off-label use, we could be subject to prohibitions on the sale or marketing of our products in the United States or other jurisdictions, face significant fines and penalties, and be required to enter into onerous corporate integrity agreements, consent decrees or similar court or agency-imposed agreements. The imposition of any such fines, penalties or sanctions could affect our reputation and position within the industry and could materially and adversely affect our business, financial condition, results of operations and prospects, which in turn could cause our stock price to decline. Additionally, the use of our products for indications other than those cleared/approved by the FDA or international regulatory authorities may result in suboptimal outcomes that could harm our reputation in the marketplace among physicians and patients.

Physicians may misuse our products or use improper techniques if they are not adequately trained, potentially leading to injury and an increased risk of product liability and similar claims. If our products are misused or used with improper technique, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management’s attention from our core business, be expensive to defend, and result in sizable damage awards against us that may not be covered by insurance.

Our products may in the future be subject to product recalls or voluntary market withdrawals that could harm our reputation, business and financial results.

The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture that could affect patient safety. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is a reasonable probability that the device would cause serious adverse health consequences or death. Manufacturers may, under their own initiative, recall a product if any material deficiency in a device is found or suspected. A government-mandated recall or voluntary recall by us or one of our distributors could occur as a result of component failures, manufacturing errors, design or labeling defects or other issues. Recalls, which include corrections as well as removals, of any of our products would divert managerial and financial resources and could have an adverse effect on our financial condition, harm our reputation with customers, and reduce our ability to achieve expected revenues.

We are required to comply with medical device reporting ("MDR") requirements and must report certain malfunctions, deaths, and serious injuries associated with our products, which can result in voluntary corrective actions or agency enforcement actions.

Under the FDA MDR regulations, medical device manufacturers are required to submit information to the FDA when they receive a report or become aware that a device has or may have caused or contributed to a death or serious injury or has or may have a malfunction that would likely cause or contribute to death or serious injury if the malfunction were to recur. All manufacturers placing medical devices on the market in the European Economic Area are legally bound to report any serious or

potentially serious incidents involving devices they produce or sell to the regulatory agency, or Competent Authority, in whose jurisdiction the incident occurred. Material noncompliance with these reporting requirements may subject the Company to adverse regulatory action, including but not limited to receipt of a Warning Letter from FDA. Malfunction of our products could result in future voluntary corrective actions, including recalls, corrections, or customer notifications, or agency action, such as inspection or enforcement actions. If malfunctions do occur, we may be unable to correct the malfunctions adequately or prevent further malfunctions, in which case we may need to cease manufacture and distribution of the affected products. Regulatory authorities may also take actions against us, such as ordering recalls, imposing fines, or seizing the affected products. Any corrective action, whether voluntary or involuntary, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

We may be subject to federal, state and foreign healthcare fraud and abuse laws and regulations, and a finding of failure to comply with such laws and regulations could have a material adverse effect on our business.

Our operations may be directly or indirectly affected by various broad federal, state or foreign healthcare fraud and abuse laws. In particular, the federal Anti-Kickback Statute prohibits any person from knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, in return for or to induce the referring, ordering, leasing, purchasing or arranging for or recommending the ordering, purchasing or leasing of an item or service, for which payment may be made under federal healthcare programs, such as the Medicare and Medicaid programs. We are also subject to the federal HIPAA statute, which created federal criminal laws that prohibit executing a scheme to defraud any health care benefit program or making false statements relating to health care matters, and federal “sunshine” laws that require transparency regarding financial arrangements with health care providers, such as the reporting and disclosure requirements imposed by PPACA regarding any “transfer of value” made or distributed to prescribers and other health care providers.

In addition, the federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act, known as “qui tam” actions, can be brought by any individual on behalf of the government and such individuals, commonly known as “whistleblowers,” may share in any amounts paid by the entity to the government in fines or settlement. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states have also enacted laws modeled after the federal False Claims Act.

Many states have also, adopted laws similar to each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers as well as laws that restrict our marketing activities with physicians, and require us to report consulting and other payments to physicians. Some states mandate implementation of commercial compliance programs to ensure compliance with these laws. We also are subject to foreign fraud and abuse laws, which vary by country. For instance, in the European Union, legislation on inducements offered to physicians and other healthcare workers or hospitals differ from country to country. Breach of the laws relating to such inducements may expose us to the imposition of criminal sanctions. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Moreover, recent health care reform legislation has strengthened these laws. Further, we expect there will continue to be federal and state laws and/or regulations, proposed and implemented, that could impact our operations and business. The extent to which future legislation or regulations, if any, relating to health care fraud abuse laws and/or enforcement, may be enacted or what effect such legislation or regulation would have on our business remains uncertain. If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us now or in the future, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from governmental health care programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results.

We may be subject to health information privacy and security laws and regulations, and a finding of failure to comply with such laws and regulations could have a material adverse effect on our business.

The HIPAA statute, and its implementing regulations, safeguard the privacy and security of individually-identifiable health information. Certain of our operations may be subject to these requirements. Penalties for noncompliance with these rules include both criminal and civil penalties. In addition, the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded federal health information privacy and security protections. Among other things, HITECH makes certain of HIPAA's privacy and security standards directly applicable to "business associates"-independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also set forth new notification requirements for health data security breaches, increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to enforce HIPAA and seek attorney's fees and costs associated with pursuing federal civil actions.

Risks Related to Our Common Stock

We will be obligated to issue additional shares of our common stock to the former stockholders of Nellix as a result of our satisfaction of a certain milestone set forth in the merger agreement with Nellix and the other parties thereto, resulting in stock ownership dilution.

Under the terms of the merger agreement with Nellix and the other parties thereto, we agreed to issue additional shares of our common stock to the former stockholders of Nellix as contingent consideration upon our satisfaction of one or both of two milestones related to the Nellix System and described in the merger agreement, or upon a change of control of our company prior to our completion of one or both milestones. On June 17, 2014, we issued an additional 2.7 million shares of our common stock to the former stockholders of Nellix upon achievement of a revenue-based milestone. One additional regulatory related milestone remains, and the maximum aggregate number of shares of our common stock remaining issuable to the former Nellix stockholders upon our achievement of such regulatory milestone, or upon a change of control of our company prior to our achievement of such milestone, assuming the average per share closing price of our common stock (as determined under the terms of the Nellix merger agreement) is equal to or less than $4.50 at such time is 3.3 million shares.

Issuing additional shares of our common stock to the former stockholders in satisfaction of contingent consideration dilutes the ownership interests of holders of our common stock on the dates of such issuances. If we are unable to realize the strategic, operational and financial benefits anticipated from our acquisition of Nellix, our stockholders may experience dilution of their ownership interests in our company upon any such future issuances of shares of our common stock without receiving any commensurate benefit.

Our operating results may vary significantly from quarter to quarter, which may negatively impact our stock price in the future.

Our quarterly revenues and results of operations may fluctuate due to, among others, the following reasons:

- physician acceptance of our products;
- the conduct and results of clinical trials;
- the timing and expense of obtaining future regulatory approvals;
- fluctuations in our expenses associated with expanding our operations;
- the introduction of new products by our competitors;
- the timing of product launch may lead to excess or obsolete inventory;
- supplier, manufacturing or quality problems with our devices;
- litigation expenses;
- the timing of stocking orders from our distributors;
- changes in our pricing policies or in the pricing policies of our competitors or suppliers; and
- changes in third-party payors' reimbursement policies.

Because of these and possibly other factors, it is likely that in some future period our operating results will not meet investor expectations or those of public market analysts.

Any unanticipated change in revenues or operating results is likely to cause our stock price to fluctuate since such changes reflect new information available to investors and analysts. New information may cause investors and analysts to revalue our business, which could cause a decline in the trading price of our stock.

The price of our stock may fluctuate unpredictably in response to factors unrelated to our operating performance.

The stock market periodically experiences significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These broad market fluctuations may cause the market price of our common stock to drop. In particular, the market price of securities of medical device companies, like ours, has been very unpredictable and may vary in response to:

- announcements by us or our competitors concerning technological innovations;
- introductions of new products;
- FDA and foreign regulatory actions;
- developments or disputes relating to patents or proprietary rights;
- maintain the effectiveness of our Quality System;

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- failure of our results of operations to meet the expectations of stock market analysts and investors;
- changes in stock market analyst recommendations regarding our common stock;
- the conversion of some or all of our senior convertible notes and any sales in the public market of shares of our common stock issued upon conversion of such notes;
- changes in healthcare policy in the United States or other countries; and
- general stock market and economic conditions and other factors unrelated to our operating performance.

These factors may materially and adversely affect the market price of our common stock.

We may not achieve our financial guidance or projected goals and objectives in the time periods that we anticipate or announce publicly, which could have an adverse effect on our business and could cause the market price of our ordinary shares to decline.

We typically provide financial guidance that is based on management's then current expectations and typically does not contain any significant margin of error or cushion for any specific uncertainties or for the uncertainties inherent in all financial forecasting. The failure to achieve our financial guidance or the projections of analysts and investors could have an adverse effect on our business, disappoint analysts and investors, and cause the market price of our common stock to drop. We also set goals and objectives for, and make public statements regarding, the timing of certain accomplishments and milestones regarding our business or operating results, such as the timing of financial objectives, new products, clinical trials, and regulatory actions. The actual timing of these events can vary dramatically due to a number of factors, including the risk factors described in this report. As a result, we may be unable to achieve our projected goals and objectives in the time periods that we anticipate or announce publicly. The failure to achieve such projected goals and objectives in the time periods that we anticipate or announce publicly could have an adverse effect on our business, disappoint investors and analysts, and cause the market price of our common stock to decline.

Trading in our stock over the last twelve months has been limited, so investors may not be able to sell as much stock as they wish at prevailing prices.

The average daily trading volume in our common stock for the twelve months ended March 31, 2018 was approximately 899,831 shares. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices. Moreover, the market price for shares of our common stock may be made more volatile because of the relatively low volume of trading in our common stock. When trading volume is low, significant price movement can be caused by the trading of a relatively small number of shares. Volatility in our common stock could cause stockholders to incur substantial losses.

Some provisions of our charter documents and Delaware law may make takeover attempts difficult, which could depress the price of our stock and inhibit one's ability to receive a premium price for their shares.

Provisions of our amended and restated certificate of incorporation could make it more difficult for a third party to acquire control of our business, even if such change in control would be beneficial to our stockholders. Our amended and restated certificate of incorporation allows our board of directors to issue up to five million shares of preferred stock and to fix the rights and preferences of such shares without stockholder approval. Any such issuance could make it more difficult for a third party to acquire our business and may adversely affect the rights of our stockholders. In addition, our board of directors is divided into three classes for staggered terms of three years. We are also subject to anti-takeover provisions under Delaware law, each of which could delay or prevent a change of control. Together these provisions may delay, deter or prevent a change in control of us, adversely affecting the market price of our common stock.

We do not anticipate declaring any cash dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and any earnings for use in the operation and expansion of our business. Our revolving credit facility and term loan contain restrictions prohibiting us from paying any cash dividends without the lender's prior approval. If we do not pay dividends, a return on one's investment may only occur if our stock price rises above the price it was purchased.

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Item 6. Exhibit Index.

The following exhibits are filed or furnished herewith:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Link Base Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X

* The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, shall not be deemed "filed" by the registrant for purposes of Section 18 of the Exchange Act and are not to be incorporated by reference into any of the registrant's filings under the Securities Act or the Exchange Act, irrespective of any general incorporation language contained in any such filing.

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: May 9, 2018 /s/ John Onopchenko
Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2018 /s/ Vaseem Mahboob
Chief Financial Officer
(Principal Financial and Accounting Officer)