ENDOLOGIX INC /DE/

FORM 10-Q
(Quarterly Report)

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Address	2 MUSICK
	IRVINE, CA 92618
Telephone	9495957200
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SIC Code	3841 - Surgical and Medical Instruments and Apparatus
Industry	Medical Equipment, Supplies & Distribution
Sector	Healthcare
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

☐ **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 ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company 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	☒		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
			Emerging growth company	☐

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

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

On August 1, 2017 , there were 83,434,656 shares outstanding of the registrant's only class of common stock.

ENDOLOGIX, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

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Part I. Financial Information

ENDOLOGIX, INC.

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 81,641	$ 26,120
Restricted cash	2,877	2,001
Marketable securities	10,000	20,988
Accounts receivable, net allowance for doubtful accounts of $994 and $1,037, respectively.	33,118	34,430
Other receivables	390	1,787
Inventories	43,555	41,160
Prepaid expenses and other current assets	4,235	3,359
Total current assets	$ 175,816	$ 129,845
Property and equipment, net	21,300	23,265
Goodwill	120,845	120,711
Intangibles, net	82,570	84,511
Deposits and other assets	1,536	1,352
Total assets	$ 402,067	$ 359,684
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,030	$ 13,237
Accrued payroll	16,933	19,997
Accrued expenses and other current liabilities	10,001	11,668
Revolving line of credit	24,297	—
Total current liabilities	$ 62,261	$ 44,902
Deferred income taxes	879	879
Deferred rent	7,859	7,949
Other liabilities	4,194	3,783
Contingently issuable common stock	9,600	12,200
Debt	220,520	177,178
Total liabilities	$ 305,313	$ 246,891
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. 83,638,895 and 82,986,244 shares issued, respectively. 83,426,656 and 82,774,005 shares outstanding, respectively.	84	83
Treasury stock, at cost, 212,239 shares.	(2,942)	(2,942)
Additional paid-in capital	588,194	567,765
Accumulated deficit	(491,207)	(453,601)
Accumulated other comprehensive income	2,625	1,488
Total stockholders' equity	$ 96,754	$ 112,793
Total liabilities and stockholders' equity	$ 402,067	$ 359,684

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$ 48,556	$ 50,974	$ 91,168	$ 93,340
Cost of goods sold	16,332	21,515	30,302	35,940
Gross profit	32,224	29,459	60,866	57,400
Operating expenses:				
Research and development	5,734	7,714	11,264	15,559
Clinical and regulatory affairs	2,740	4,022	6,575	7,905
Marketing and sales	23,781	28,824	49,681	56,742
General and administrative	7,904	10,210	16,777	20,156
Restructuring costs	(29)	790	137	8,114
Settlement costs	—	—	—	4,650
Contract termination and business acquisition expenses	—	1,127	—	5,905
Total operating expenses	40,130	52,687	84,434	119,031
Loss from operations	(7,906)	(23,228)	(23,568)	(61,631)
Other income (expense):				
Interest income	28	48	72	110
Interest expense	(5,803)	(3,815)	(10,098)	(7,597)
Other income (expense), net	223	(556)	176	(912)
Change in fair value of contingent consideration related to acquisition	3,800	(100)	2,600	(100)
Loss on debt extinguishment	(6,512)	—	(6,512)	—
Change in fair value of derivative liabilities	—	(38,743)	—	(43,831)
Total other income (expense)	(8,264)	(43,166)	(13,762)	(52,330)
Net loss before income tax expense	(16,170)	(66,394)	(37,330)	(113,961)
Income tax expense	(122)	(443)	(276)	(546)
Net loss	$ (16,292)	$ (66,837)	$ (37,606)	$ (114,507)
Other comprehensive income (loss) foreign currency translation	781	1,019	1,137	914
Comprehensive loss	$ (15,511)	$ (65,818)	$ (36,469)	$ (113,593)
Basic and diluted net loss per share	$ (0.20)	$ (0.81)	$ (0.45)	$ (1.44)
Shares used in computing basic and diluted net loss per share	83,247	82,072	83,087	79,368

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

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

	Six Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$ (37,606)	$ (114,507)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	(89)	—
Depreciation and amortization	4,645	4,229
Stock-based compensation	6,188	6,768
Change in fair value of derivative liabilities	—	43,831
Change in fair value of contingent consideration related to acquisition	(2,600)	100
Accretion of interest & amortization of deferred financing costs on debt	5,004	4,603
Non-cash foreign exchange loss (gain)	(206)	810
Non-cash loss on debt extinguishment	3,997	—
Changes in operating assets and liabilities:		
Restricted cash	(876)	—
Accounts receivable and other receivables	3,470	(2,445)
Inventories	(2,174)	3,557
Prepaid expenses and other current assets	(762)	1,100
Accounts payable	(3,486)	(5,812)
Accrued payroll	(3,220)	6,922
Accrued expenses and other liabilities	(1,092)	1,889
Net cash used in operating activities	$ (28,807)	$ (48,955)
Cash flows from investing activities:		
Purchases of marketable securities	—	(5,017)
Maturities of marketable securities	11,000	19,350
Purchases of property and equipment	(833)	(1,304)
Acquisition of business, net of cash acquired of $0 and $24,012, respectively	—	(60,622)
Net cash (used in) provided by investing activities	$ 10,167	$ (47,593)
Cash flows from financing activities:		
Net proceeds from revolving line of credit	24,297	—
Deferred financing costs	(6,285)	—
Proceeds from sale of common stock under employee stock purchase plan	1,681	1,826
Proceeds from exercise of stock options	449	1,777
Proceeds from issuance of debt	120,000	—
Repayment of debt	(66,613)	—
Minimum tax withholding paid on behalf of employees for restricted stock units	—	(134)
Net cash provided by financing activities	$ 73,529	$ 3,469
Effect of exchange rate changes on cash and cash equivalents	632	(26)
Net (decrease) in cash and cash equivalents	$ 55,521	$ (93,105)
Cash and cash equivalents, beginning of period	26,120	124,553
Cash and cash equivalents, end of period	$ 81,641	$ 31,448
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,956	$ 2,994
Cash paid for income taxes	$ 565	$ 167
Non-cash investing and financing activities:		
Acquisition of property and equipment included in accounts payable	$ 26	$ —
Fair value of common stock issued for business acquisition	$ —	$ 100,812
Fair value of warrants issued for business acquisition	$ —	$ 44
Fair value of warrants issued in connection with the Facility Agreement	$ 14,704	$ —

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

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

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

The Company's AFX System consist of (i) a cobalt chromium alloy stent covered by 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 Company's 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.

The Company's 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 polymer dispenser. The Company's Nellix EVAS System seals the entire aneurysm sac effectively excluding the aneurysm reducing the likelihood of future aneurysm rupture. Additionally, the Nellix EVAS System has the potential to reduce post procedural re-interventions.

(b) Basis of Presentation

The accompanying Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission (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 and six months ended June 30, 2017 and 2016 , there were no related party transactions.

The interim financial data as of June 30, 2017 is unaudited and is not necessarily indicative of the results for a full year. In the opinion of the Company's management, the interim data includes normal and recurring adjustments necessary for a fair presentation of the Company's financial results for the three and six months ended June 30, 2017 . Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations relating to interim financial statements. The interim financial data includes the results of TriVascular, beginning on February 3, 2016, the effective date of the merger.

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, 2016 , filed with the SEC on March 1, 2017.

(c) Operating Segment

The Company has one operating and reporting segment that is focused exclusively on the development, manufacture, marketing, and sale of EVAR and EVAS product for the treatment of aortic disorders. For the three and six months ended June 30,

2017 , all of the Company's revenue and related expenses were solely attributable to these activities. Substantially all of the Company's long-lived assets are located in the U.S.

2. Use of Estimates and Summary of Significant Accounting Policies

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

For a complete summary of 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 2016 Annual Report on Form 10-K for the year ended December 31, 2016 , filed with the SEC on March

1, 2017. There have been no material changes to the Company's significant accounting policies during the three and six months ended June 30, 2017 .

3. Balance Sheet Account Detail

(a) Property and Equipment

Property and equipment consisted of the following:

	June 30, 2017	December 31, 2016
Production equipment, molds, and office furniture	$ 11,908	$ 11,714
Computer hardware and software	8,746	8,162
Leasehold improvements	15,495	15,495
Construction in progress (software and related implementation, production equipment, and leasehold improvements)	842	839
Property and equipment, at cost	$ 36,991	$ 36,210
Accumulated depreciation	(15,691)	(12,945)
Property and equipment, net	$ 21,300	$ 23,265

Depreciation expense for property and equipment for the three months ended June 30, 2017 and 2016 was $1.3 million and $1.3 million , respectively. For the six months ended June 30, 2017 and 2016 depreciation expense for property and equipment was $2.7 million and $2.6 million , respectively.

(b) Inventories

Inventories consisted of the following:

	June 30, 2017	December 31, 2016
Raw materials	$ 11,291	$ 13,133
Work-in-process	11,767	10,139
Finished goods	20,497	17,888
Total Inventories	$ 43,555	$ 41,160

(c) Goodwill and Intangible Assets

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

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)

	June 30, 2017	December 31, 2016
Goodwill	$ 120,845	$ 120,711
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	(5,375)	(3,810)
Developed technology, net	$ 62,225	$ 63,790
Customer relationships	$ 7,500	$ 7,500
Accumulated amortization	(1,063)	(687)
Customer relationships, net	$ 6,437	$ 6,813
Intangible assets (excluding goodwill), net	$ 82,570	$ 84,511

The change in the carrying amount of goodwill for the six months ended June 30, 2017 is as follows (in thousands):

Balance at January 1, 2017	120,711
Foreign currency translation adjustment	134
Balance at June 30, 2017	$ 120,845

Amortization expense for intangible assets for the three months ended June 30, 2017 and 2016 was $1.0 million and $0.7 million , respectively. For the six months ended June 30, 2017 and 2016 amortization expense for intangible assets was $1.9 million and $1.6 million , respectively.

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

Remainder of 2017	$ 1,940
2018	3,978
2019	3,978
2020	4,996
2021	6,557
2022 & Thereafter	47,213
Total	$ 68,662

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)

(d) Marketable securities

Investments in held-to-maturity marketable securities consist of the following at June 30, 2017 and December 31, 2016 :

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Agency bonds	$ 3,999	$ —	$ (1)	$ 3,998
Corporate bonds	6,001	—	(2)	5,999
Total	$ 10,000	$ —	$ (3)	$ 9,997

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Agency bonds	$ 6,488	$ 2	$ —	$ 6,490
Corporate bonds	10,513	—	(21)	10,492
Commercial paper	3,987	—	—	3,987
Total	$ 20,988	$ 2	$ (21)	$ 20,969

At June 30, 2017 , the Company’s investments included 4 held-to-maturity debt securities in unrealized loss positions with a total unrealized loss of approximately $3 thousand and a total fair market value of approximately $10.0 million . All investments with gross unrealized losses have been in unrealized loss positions for less than 11 months. The unrealized losses were caused by interest rate fluctuations. There was no change in the credit risk of the securities. The Company does not intend to sell the securities and it is not likely that the Company will be required to sell the securities before the expected recovery of their amortized cost bases. There were no realized gains or losses on the investments for the three and six months ended June 30, 2017 . All of the Company's investments of held-to-maturity securities will mature within less than 12 months with an average maturity of 1 month.

(e) Fair Value Measurements

The following fair value hierarchy table presents information about each major category of the Company’s assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 :

	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 June 30, 2017				
Cash and cash equivalents	$ 81,641	$ —	$ —	$ 81,641
Restricted cash	$ 2,877	$ —	$ —	$ 2,877
Contingently issuable common stock	$ —	$ —	$ 9,600	$ 9,600
At December 31, 2016				
Cash and cash equivalents	$ 26,120	$ —	$ —	$ 26,120
Restricted cash	$ 2,001	$ —	$ —	$ 2,001
Contingently issuable common stock	$ —	$ —	$ 12,200	$ 12,200

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

There were no re-measurements to fair value during the six months ended June 30, 2017 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 six months ended June 30, 2017 .

(f) 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 our long-term debt was $123.2 million as of June 30, 2017 and $187.6 million as of December 31, 2016 .

The Company measures the fair value of its Term Loan 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 our Term Loan was $100.2 million as of June 30, 2017 .

Due to short-term nature, the Company believes that the carrying value of its revolving line of credit approximated its fair value at June 30, 2017 .

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

4. Stock-Based Compensation

The Company classifies stock-based compensation expense in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss, based on the department to which the recipient belongs. Stock-based compensation expense included in cost of goods sold and operating expenses during the three and six months ended June 30, 2017 and 2016 , was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of goods sold	$ 304	$ 259	$ 473	$ 532
Operating expenses:				
Research and development	323	434	583	797
Clinical and regulatory affairs	160	593	420	493
Marketing and sales	1,283	1,261	2,341	2,391
General and administrative	1,164	1,339	2,371	2,555
Total operating expenses	$ 2,930	$ 3,627	$ 5,715	$ 6,236
Total	$ 3,234	$ 3,886	$ 6,188	$ 6,768

5. Net Loss Per Share

Net loss per share was calculated by dividing net loss by the weighted average number of common shares outstanding for the three and six months ended June 30, 2017 and 2016 .

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$ (16,292)	$ (66,837)	$ (37,606)	$ (114,507)
Shares used in computing basic and diluted net loss per share	83,247	82,072	83,087	79,368
Basic and diluted net loss per share	$ (0.20)	$ (0.81)	$ (0.45)	$ (1.44)

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

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Common stock options	574	1,620	636	1,193
Restricted stock awards	121	135	120	131
Restricted stock units	207	438	248	299
Total	902	2,193	1,004	1,623

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 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.

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"). As part of the Facility Agreement, the Company also 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Conversion of the Notes	11,939	14,767	11,939	14,767
Deerfield Warrants	6,470	—	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: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2014, if the closing sale price of the Company’s common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price of the 2.25% Senior Notes in effect on each applicable trading day; (2) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for the 2.25% Senior Notes for each such trading day was less than 98% of the closing sale price of the Company’s common stock on such date multiplied by the then-current conversion rate; (3) if the Company calls all or any portion of the notes for redemption, at any time prior to the close of business on the second scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On or after September 15, 2018 until the close of business on the second scheduled trading day immediately preceding the stated maturity date, holders may surrender their 2.25% Senior Notes for conversion at any time, regardless of the foregoing circumstances.

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

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

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

The 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 in other assets, to be subsequently amortized as interest expense over the term of the 2.25% Senior Notes, and $0.8 million attributable to the equity component was recorded as a reduction to additional paid-in-capital in stockholders' equity. During the three months ended March 31, 2016, the Company adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" utilizing retrospective application as permitted. As a result, the Company reclassified $1.9 million of debt issuance costs from current and non-current other assets to reduce the 2.25% Senior Notes as of December 31, 2015.

On April 3, 2017, the Company entered into a Facility with affiliates of Deerfield Management Company, L.P., 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 section 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 June 30, 2017 , the Company had outstanding borrowings of $18.3 million , and deferred financing costs of $0.2 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.

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 a 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 amount 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.

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

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

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

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

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

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

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

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

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

As of June 30, 2017 , the Company had outstanding borrowings of $105.5 million , and deferred financing costs of $2.1 million , related to the 3.25% Senior Notes. There are no principal payments due during the term. Annual interest expense on these 3.25% Senior Notes will range from $9.1 million to $10.7 million through maturity.

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

On June 2, 2016, the Company amended its Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 100,000,000 to 135,000,000 , which is currently at a level sufficient to alleviate the share

deficiency. Accordingly, on June 2, 2016, the Company re-classed $68.6 million of the conversion features of the Senior Notes from derivative liabilities to additional paid-in capital.

For the three and six months ended June 30, 2016 , the Company recorded $38.7 million as a fair value adjustment of derivative liabilities. The primary factor causing the change in the fair value of the derivative liability was during the period February 3, 2016 through June 2, 2016 when the Company's stock price increased. Adjustments to the fair value of the derivative liabilities are recognized within other income (expense) in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

The value of the derivative liabilities were estimated using a “with” and “without” approach utilizing observable and unobservable inputs causing this to be a Level 3 measurement. In the “with” scenario, the value of the Senior Notes were estimated in a binomial lattice model that considers all terms of the Senior Notes, including the conversion features, with a range of probabilities and assumptions related to the timing and likelihood of the conversion features being exercised by either the Company or the holders of the Senior Notes. In the “without” scenario the value of the Senior Notes absent the conversion options were estimated. The difference between the values estimated in the “with” and “without” scenarios represents the value of the derivative liabilities. Changes in the value of the derivative liabilities were driven by changes in the Company’s stock price, expected volatility, credit spreads, and market yields.

Bank of America line of credit

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

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

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 . In conjunction with the Company’s adoption of ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs” during the first quarter of 2016, the Company also adopted an update thereof or ASU 2015-15 “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of Credit Arrangements.” As a result, $0.9 million attributable to the MidCap Credit Facility was recorded as deferred financing costs in other assets, to be subsequently amortized 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 BOA Credit Facility and concurrent entry into a credit and security agreement with MidCap in July 2016, the Company entered into a corporate credit card agreement whereby the Company is required to maintain a $2.0 million deposit in favor of the credit card issuer. The deposit account related to these credit cards will be presented as restricted cash on the Company's Condensed Consolidated Balance Sheet.

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, and as of June 30, 2017, 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, the Company entered into a Facility Agreement (the "Deerfield Facility Agreement" or "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 was 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 June 30, 2017, the Company had outstanding borrowings of $105.3 million , and deferred financing costs of $4.9 million , related to the Term Loan. Annual interest expense on these notes will range from $1.4 million to $8.4 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 seven th 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 has 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 may 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.

The Revolver replaces the Company's $50.0 million asset-based revolving line of credit with MidCap Financial Trust. In conjunction with the Company's adoption of ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" during the first quarter of 2016, the Company also adopted an update thereof or ASU 2015-15 "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of Credit Arrangements." As a result, the Company recorded $1.2 million in deferred financing costs related to the Revolver and presents these costs as a deferred asset, to be subsequently amortized as interest expense over the term of the 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. As of June 30, 2017 , the Company had outstanding borrowings of $24.3 million , and deferred financing costs of $1.1 million related to the revolver.

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 Sheet.

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)

7. Revenue by Geographic Region

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
United States	$ 31,906	65.7%	$ 36,283	71.2%	$ 62,795	68.9%	$ 66,151	70.9%
Total International	$ 16,650	34.3%	$ 14,691	28.8%	$ 28,373	31.1%	$ 27,189	29.1%
Revenue	$ 48,556	100.0%	$ 50,974	100.0%	$ 91,168	100.0%	$ 93,340	100.0%

8. Commitments and Contingencies

(a) Leases

The Company leases its administrative, research, and manufacturing facilities located in Irvine, California, Santa Rosa, California and an administrative office located in Rosmalen, The Netherlands. These facility lease agreements require the Company to pay operating costs, including property taxes, insurance and maintenance. In addition, the Company has certain equipment under long-term agreements that are accounted for as operating leases.

In conjunction with the TriVascular merger, the Company assumed the lease for TriVascular's facility in Santa Rosa, California. The Company uses the Santa Rosa facility for manufacturing, research & development, and administrative purposes and the facility consists of 110,000 square feet under an operating lease scheduled to expire in February 2018. In July 2017, the Company renewed the lease for an additional 5 years .

Future minimum payments by year under non-cancelable leases with initial terms in excess of one year were as follows as of June 30, 2017 :

Remainder of 2017	$ 1,856
2018	3,317
2019	3,435
2020	3,659
2021	3,692
2022 and thereafter	21,821
Total	$ 37,780

Facilities rent expense for the three months ended June 30, 2017 and 2016 was $1.0 million and $0.9 million , respectively. For the six months ended June 30, 2017 and 2016 facilities rent expense was $1.9 million and $1.6 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 eighteen months of the employee’s then current salary for an Involuntary Termination prior to a change in control of the Company, and will generally be in a range of eighteen to twenty-four months of the employee’s then current salary for an Involuntary Termination upon or following a change in control of the Company.

(c) Legal Matters

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

LifePort Sciences LLC v. Endologix, Inc.

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

Shareholder 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 Company believes the lawsuits are without merit and intends to defend itself vigorously.

Shareholder Derivative Litigation

On May 22, 2017, a purported stockholder of the Company filed a shareholder derivative complaint in the Superior Court for the State of California, County of Los Angeles, naming certain executive officers and the directors of the Company as defendants and alleging, among other things, breach of fiduciary duty by such executive officers and director. The Company believes this lawsuit is without merit and intends to defend itself vigorously.

SEC Investigation

In July 2017, the Company learned that the United States Securities and Exchange Commission (SEC) has 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. The Company intends to fully cooperate with the investigation, but cannot predict its outcome or the timing of the investigation’s conclusion.

(d) Contract Termination

In the three and six months ended June 30, 2016 , the Company sent notices of termination to certain of its distributors providing for the termination of the respective distribution agreements. In accordance with ASC No. 420 “Exit or Disposal Cost Obligations”, the Company expensed distributor termination costs in the period in which the written notification of termination occurred. As a result, the Company incurred termination costs of $1.1 million and $2.7 million for the three and six months ended June 30, 2016 . Such termination costs are included in contract termination and business acquisition expenses for the three and six months ended June 30, 2016 .

9. Contingently Issuable Common Stock

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

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

The Merger Agreement provides that, in addition to the shares of common stock of the Company (the “Common Stock”) issued to the former Nellix

stockholders at the closing of the Merger, if the Company receives approval from the FDA to sell the Nellix Product in the United States (the "PMA Milestone"), the Company will issue additional shares of the Common Stock to the former stockholders of Nellix. The dollar value of the shares of the Common Stock to be issued upon achievement of the PMA Milestone will be equal to $15.0 million (less the dollar value of certain cash payments and other deductions). The price per share of the shares of the Common Stock to be issued upon achievement of the PMA Milestone is subject to a stock price floor of $4.50 per share, but not subject to a stock price ceiling.

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

As of June 30, 2017 the Company's stock price last closed at $4.86 per share. Thus, had the PMA Milestone been achieved on June 30, 2017 the Contingent Payment would have comprised 3.0 million shares (based on the 30 -day average closing stock price ending 5 days prior to the announcement), representing a value of $14.5 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, 2016	$ 12,200
Fair Value Adjustment of Contingent Payment for the six months ended June 30, 2017	(2,600)
June 30, 2017	$ 9,600

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 $0.3 million for the three and six months ended June 30, 2017 , respectively. The Company's ETR was (0.7)% for the three and six months ended June 30, 2017 . The Company's ETR for the three and six months ended June 30, 2017 differs from the U.S. federal statutory tax rate of 34% 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.

11. Restructuring Charges

In the six months ended June 30, 2017 , the Company recorded $0.1 million in restructuring costs within operating expenses related to focused reductions of its workforce. The Company began substantially formulating plans around this workforce reduction during the first quarter of 2016 in conjunction with its merger of TriVascular. The targeted reductions and other restructuring activities were initiated to provide efficiencies and realign resources as well as to allow for continued investment in strategic areas and drive growth. The Company expects to incur a total of $11.2 million in restructuring charges upon the completion of the plan, which represents the Company’s best estimate as of June 30, 2017 . In the year ended December 31, 2016 , the Company recorded $11.1 million in restructuring costs. 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 six months ended June 30, 2017 :

	One-time Termination Benefits
Accrual balance as of December 31, 2016	$ 2,754
Restructuring charges	137
Utilization	(2,656)
Accrual balance as of June 30, 2017	$ 235

The accrual balance as of June 30, 2017 is classified within accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheet.

12. TriVascular Merger

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

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

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

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

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

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)

Cash and cash equivalents	$	24,012
Short-term investments		3,008
Accounts receivable		5,780
Inventories		17,765
Prepaid expenses and other current assets		1,895
Property and equipment		3,152
Intangible assets		46,200
Other assets		317
Accounts payable		(2,214)
Accrued liabilities and other		(6,450)
Notes payable		(61)
Net assets acquired	$	93,404
Goodwill	$	92,086
Total purchase consideration	$	185,490

The goodwill is primarily attributable to strategic opportunities that arose from the acquisition of TriVascular, such as broadening the product portfolio for the treatment of AAA and leveraging the combined company's technology and commercial capabilities. The goodwill is not deductible for tax purposes.

Pro Forma Condensed Combined Financial Information (Unaudited)

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Combined net sales	$ 50,974	$ 96,011
Combined net loss from continuing operations	(62,507)	(110,730)
Combined basic and diluted net loss per share	$ (0.76)	$ (1.35)

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

Cautionary Note Concerning Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward looking statements are intended to qualify for the safe harbor established by the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by the use of forward-looking terminology such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or 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:

- risks associated with our merger with TriVascular Technologies, Inc. ("TriVascular");
- failure to realize the anticipated benefits from previous business combination transactions, including our acquisition of Nellix, Inc. ("Nellix");
- continued market acceptance, use and endorsement of our products;
- quality problems with our products;
- consolidation in the health care industry;
- the success of our clinical trials relating to products under development;
- our ability to maintain strong relationships with certain key physicians;
- continued growth in the number of patients qualifying for treatment of abdominal aortic aneurysms through our products;
- our ability to effectively compete with the products offered by our competitors;
- the level and availability of third party payor reimbursement for our products;
- our ability to effectively develop new or complementary products and technologies;
- our ability to manufacture our endovascular systems to meet demand;
- changes to our international operations including currency exchange rate fluctuations;
- our ability to effectively manage our business and keep pace with our anticipated growth;
- our ability to develop and retain a direct sales force in the United States and select European countries;
- the nature of and any changes to domestic and foreign legislative, regulatory and other legal requirements that apply to us, our products, our suppliers and our competitors;
- the timing of and our ability to obtain and maintain any required regulatory clearances and approvals;
- our ability to protect our intellectual property rights and proprietary technologies;
- our ability to operate our business without infringing the intellectual property rights and proprietary technology of third parties;
- product liability claims;
- pending and future litigation;
- reputational damage to our products caused by the use, mis-use or off-label use of our products or government or voluntary recalls of our products;
- our utilization of single source supplier for specialized components of our product lines;
- our ability to attract, retain, and motivate qualified personnel;
- our ability to make future acquisitions and successfully integrate any such future-acquired businesses;
- our ability to maintain adequate liquidity to fund our operational needs and research and developments expenses;
- 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, 2016, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 1, 2017, including but not limited to those factors discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements." All subsequent written

and oral forward-looking statements attributable to us or by persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

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

Overview

Our Business

Our corporate headquarters is located in Irvine, California and we have manufacturing facilities located in Irvine and Santa Rosa, California. We develop, manufacture, market, and sell innovative medical devices for the treatment of aortic disorders. Our principal products are intended for the treatment of abdominal aortic aneurysms ("AAA"). Our AAA products are built on one of two platforms: (a) traditional minimally-invasive endovascular aneurysm repair ("EVAR") or (b) 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, or the AFX System, the VELA ® Proximal Endograft, and the Ovation ® Abdominal Stent Graft System, or the Ovation System. Our current EVAS product is the Nellix ® Endovascular Aneurysm Sealing System, or the Nellix EVAS System. We sell our products through our direct U.S. and European sales forces and third-party international distributors and agents in other parts of the world.

See Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2016 , entitled "Business," for a discussion of:

- *Market Overview and Opportunity*
- *Our Products*
- *Manufacturing and Supply*
- *Marketing and Sales*
- *Competition*
- *Product Developments and Clinical Trials*

When used in this report, “we,” “our,” “us” or “Endologix,” refer to Endologix, Inc. and our consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires. Endologix ® , AFX ® , Nellix ® , IntuiTrak ® , Ovation ® , VELA ® , Ovation Prime ® , Duraply ® , Ovation Alto ® , and CustomSeal ® , are registered trademarks of Endologix, Inc. and its subsidiaries. ActiveSeal™ and the respective product logos are trademarks of Endologix, Inc. and its subsidiaries.

The Nellix System has obtained CE Mark approval in the European Union and is only approved as an investigational device in the United States. The Ovation Alto System is only approved as an investigational device and currently not approved in any market.

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

Nellix EVAS System

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* Global Registry - The objective of this registry was to assess the clinical outcomes of the Nellix® System for the endovascular repair of infrarenal abdominal aortic aneurysms (AAA) in an ‘all-comers,’ real world patient population. The first phase of the registry included 300 patients enrolled in 18 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 updated data on 300 patients with a mean follow-up of 25 months. In November 2016, we also announced positive 2-year results from the Nellix EVAS FORWARD Global Registry. 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.

- *EVAS FORWARD IDE* - We developed this pivotal clinical trial to evaluate the safety and effectiveness of the Nellix EVAS System. This study is a prospective single arm study which enrolled 179 patients at 29 centers in the United States and Europe. In November 2014, we completed enrollment in the EVAS FORWARD IDE, and we submitted the one year results to the U.S. Food and Drug Administration (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).

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

  - Freedom from all endoleaks (95%), all-cause mortality (92%), device-related reintervention (96%), AAA Sac growth (98%), migration (98%), and cardiovascular mortality (98%), among all patients.
  - Highest freedom of type II endoleaks, of 96%, ever reported at two years, among all patients.

- *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.

  In November 2016, we provided an update on the Nellix premarket approval ("PMA") process. In that update, we reported that the FDA had requested that we provide current patient follow-up data at two-years from the EVAS FORWARD IDE Study. We also reported that we expected this data to be available and submitted to the FDA in the second quarter of 2017, followed by a possible FDA Advisory Committee Panel meeting by the end of 2017, and potential PMA of the Nellix EVAS System in the second quarter of 2018.

  In May 2017, we met with the FDA regarding the Nellix EVAS System. Based upon our meeting with the FDA, and our further internal analysis, we determined that we will seek PMA of the Nellix EVAS System by conducting a confirmatory clinical study with the previously updated Instructions for Use and the second generation device design which is currently sold in Europe and other international markets. We will collaborate with the FDA over the coming months on the confirmatory clinical study protocol, and we anticipate beginning patient enrollment in the confirmatory clinical study in the fourth quarter of 2017 or early 2018, with PMA approval estimated to occur in 2020.

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 will provide a real-world comparison of the AFX System versus other commercially available EVAR devices. We designed the LEOPARD study to randomize and enroll up to 800 patients at 80 leading centers throughout the United States and commenced enrollment in the first quarter of 2015. The centers are a mix of our current and new customers, with each investigator selecting one competitive device to randomize against the AFX System. 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.

In December 2015, we announced that the AFX System received Shonin approval from the Japanese Ministry of Health, Labor and Welfare.

In February 2016, we announced the completion of the first United States commercial implant of our AFX2 Bifurcated Endograft System ("AFX2"). AFX2 reduces procedure steps for the delivery and deployment of the bifurcated endograft. AFX2 also facilitates percutaneous endovascular aneurysm repair ("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 the AFX System 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 instructions for use 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 the AFX System and AFX2 had been re-instated, effective immediately.

In addition, in December 2016, we placed a temporary hold on shipments of the AFX System and AFX2 to complete an investigation of a manufacturing issue with some sizes of these devices. In late December 2016, we removed the temporary hold on, and resumed shipments of, all sizes of the AFX System and some sizes of AFX2, and in January 2017 we removed the temporary hold on, and resumed shipments of, all 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.

In May 2011, TriVascular 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, TriVascular initiated the LIFE Study to illustrate the potential advantages of a fast tract 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 and the following highlights of the presentation, with outcomes covering one-month follow-up, include:

- 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 endoleak;
- 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 early 2015, TriVascular initiated 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 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%
- 100% procedural success

In June 2015, the FDA approved the next generation Ovation iX Iliac Stent Graft for the Ovation System, and in July 2015, the FDA approved the Ovation iX Abdominal Stent Graft System. In September 2015, the first patients were treated with the Ovation iX Abdominal Stent Graft System in Europe, and in August 2015, TriVascular initiated the launch of the Ovation iX System in the United States.

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

- Broad patient applicability, with 40% of the patients treated outside the labeled indications of other endovascular aortic repair (EVAR) devices;
- Stable aortic neck diameters with an average expansion of 0.1%, compared to 25% as reported with other EVAR devices;
- Lowest reported MAE rate across EVAR investigational device exemption ("IDE") trials;
- 97% Freedom from secondary interventions related to type I endoleak; and
- No migration, type III endoleaks or conversions.

In August 2016, we announced that the first two patients were treated with the Ovation Alto ® Abdominal Stent Graft System("Ovation Alto"), which is the newest device in the Ovation System. Ovation Alto expands EVAR to include the treatment of patients with complex AAAs, specifically patients with very short or otherwise challenging 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 Ovation Alto in the United States.

In March 2017, we announced the enrollment of the first patients in the **E** xpanding Patient Applicability with Po **l** ymer S **e** aling O **vat** ion Alto St **e** nt 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 12 centers in the United States.

Characteristics of Our Revenue and Expenses

Revenue

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

Cost of Goods Sold

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

Research and Development

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

Clinical and Regulatory

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

Marketing and Sales

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

General and Administrative

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

Results of Operations

Operations Overview - Three Months Ended June 30, 2017 versus 2016

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
Revenue	$ 48,556	100.0%	$ 50,974	100.0%	$ 91,168	100.0%	$ 93,340	100.0%
Cost of goods sold	16,332	33.6%	21,515	42.2%	30,302	33.2%	35,940	38.5%
Gross profit	32,224	66.4%	29,459	57.8%	60,866	66.8%	57,400	61.5%
Operating expenses:								
Research and development	5,734	11.8%	7,714	15.1%	11,264	12.4%	15,559	16.7%
Clinical and regulatory affairs	2,740	5.6%	4,022	7.9%	6,575	7.2%	7,905	8.5%
Marketing and sales	23,781	49.0%	28,824	56.5%	49,681	54.5%	56,742	60.8%
General and administrative	7,904	16.3%	10,210	20.0%	16,777	18.4%	20,156	21.6%
Restructuring costs	(29)	(0.1)%	790	1.5%	137	0.2%	8,114	8.7%
Settlement costs	—	—%	—	—%	—	—%	4,650	5.0%
Contract termination and business acquisition expenses	—	—%	1,127	2.2%	—	—%	5,905	6.3%
Total operating expenses	40,130	82.6%	52,687	103.4%	84,434	92.6%	119,031	127.5%
Loss from operations	(7,906)	(16.3)%	(23,228)	(45.6)%	(23,568)	(25.9)%	(61,631)	(66.0)%
Total other income (expense)	(8,264)	(17.0)%	(43,166)	(84.7)%	(13,762)	(15.1)%	(52,330)	(56.1)%
Net loss before income tax expense	(16,170)	(33.3)%	(66,394)	(130.3)%	(37,330)	(40.9)%	(113,961)	(122.1)%
Income tax expense	(122)	(0.3)%	(443)	(0.9)%	(276)	(0.3)%	(546)	(0.6)%
Net loss	$ (16,292)	(33.6)%	$ (66,837)	(131.1)%	$ (37,606)	(41.2)%	$ (114,507)	(122.7)%

Comparison of the Three Months Ended June 30, 2017 versus 2016

Revenue

	Three Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Revenue	$ 48,556	$ 50,974	$ (2,418)	(4.7)%

US Sales. Net sales totaled $31.9 million in the three months ended June 30, 2017 , a (12.1)% decrease from $36.3 million in three months ended June 30, 2016 , driven by a decline in sales of our AFX products due to lower than expected customer recapture and sales force attrition partially offset by strong sales growth for the Ovation System.

International Sales. Net sales of products in our international regions totaled $16.7 million in the three months ended June 30, 2017 , a 13.3% increase from $14.7 million in the three months ended June 30, 2016 . Both AFX and Ovation product lines posted strong growth which was partially offset by a decline in Nellix sales reflecting the narrowed IFU. Our international sales for the three months ended June 30, 2017 included an unfavorable foreign currency impact of approximately $0.2 million when compared to the net sales for the three months ended June 30, 2016 , which had a 1.5 percentage point unfavorable impact on the growth rate representing constant currency increase of 14.8%.

Cost of Goods Sold, Gross Profit, and Gross Margin

	Three Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Cost of goods sold	$ 16,332	$ 21,515	$ (5,183)	(24.1)%
Gross profit	32,224	29,459	2,765	9.4 %
Gross margin percentage (gross profit as a percent of revenue)	66.4%	57.8%		

Gross margin percentage for the three months ended June 30, 2017 increased to 66.4% from 57.8% for the three months ended June 30, 2016 . The three months ended June 30, 2016 included purchase price accounting impact for inventory acquired in the TriVascular merger of $4.6 million. Excluding this impact, cost of goods decreased $0.6 million in the three months ended June 30, 2017 versus 2016. This decrease is driven by lower revenue of 4.7% in the three months ended June 30, 2017 versus the three months ended June 30, 2016 .

Operating Expenses

	Three Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Research and development	$ 5,734	$ 7,714	$ (1,980)	(25.7)%
Clinical and regulatory affairs	2,740	4,022	(1,282)	(31.9)%
Marketing and sales	23,781	28,824	(5,043)	(17.5)%
General and administrative	7,904	10,210	(2,306)	(22.6)%
Restructuring costs	(29)	790	(819)	(103.7)%
Contract termination and business acquisition expenses	—	1,127	(1,127)	(100.0)%

Research and Development. The $2.0 million decrease in research and development expenses was attributable to timing of project spending and synergies related to the TriVascular merger.

Clinical and Regulatory Affairs. The decrease in clinical and regulatory affairs expenses are due to synergies related to the TriVascular merger.

Marketing and Sales . The $5.0 million decrease in marketing and sales expenses for the three months ended June 30, 2017 , as compared to the prior year period, was driven by synergies as a result of the integration of the TriVascular sales and marketing organization.

General and Administrative . The $2.3 million decrease in general and administrative expenses is primarily attributable to a decrease in headcount related to synergies as a result of the TriVascular merger. The targeted reductions were initiated to provide efficiencies and realign resources as well as to allow for continued investment in strategic areas and drive growth.

Restructuring Costs. The $0.8 million decrease in restructuring costs for the three months ended June 30, 2017 , as compared to the prior year period is comprised of costs associated with TriVascular executive change in control agreements, severance and retention bonuses as a result of the TriVascular merger.

Contract Termination and Business Acquisition Expenses. The $1.1 million decrease in contract termination and business acquisition expenses for the three months ended June 30, 2017 , as compared to the prior year period, was primarily related to termination of some of our international distributors in 2016.

Other income (expense), net

	Three Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Other income (expense), net	$ (8,264)	$ (43,166)	$ 34,902	(80.9)%

Other Income (Expense), Net. Other expense of $8.3 million for the three months ended June 30, 2017 consists mainly of loss on debt extinguishment of $6.5 million, interest expense of $5.8 million and a favorable change in fair value of contingent

consideration related to the Nellix acquisition of $3.8 million. Other expense for the three months ended June 30, 2016 consists mainly of interest expense of $3.8 million associated with our convertible notes and the change in fair value of derivative of $38.7 million.

Provision for Income Taxes

	Three Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Income tax expense	$ (122)	$ (443)	$ 321	(72.5)%

Our income tax expense was $122 thousand and our effective tax rate was (0.7)% for the three months ended June 30, 2017 due to our tax positions in various jurisdictions. During the three months ended June 30, 2017 and 2016 , we had operating legal entities in the U.S., Canada, Italy, New Zealand, Poland and the Netherlands (including registered sales branches in certain countries in Europe).

Comparison of the Six Months Ended June 30, 2017 versus 2016

Revenue

	Six Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Revenue	$ 91,168	$ 93,340	$ (2,172)	(2.3)%

US Sales. Net sales totaled $62.8 million in the six months ended June 30, 2017 , a 5.1% decrease from $66.2 million in six months ended June 30, 2016 , driven by a decline in sales of our AFX products due to lower than expected customer recapture and sales force attrition partially offset by strong sales growth for the Ovation System.

International Sales. Net sales of products in our international regions totaled $28.4 million in the six months ended June 30, 2017 , a 4.4% increase from $27.2 million in the six months ended June 30, 2016 . Both AFX and Ovation product lines posted strong growth which was partially offset by a decline in Nellix sales reflecting the narrowed IFU. Our international sales for the six months ended June 30, 2017 included an unfavorable foreign currency impact of approximately $0.5 million when compared to the net sales for the six months ended June 30, 2016, which had a 1.8 percentage point unfavorable impact on the growth rate representing constant currency decline of 6.2%.

Cost of Goods Sold, Gross Profit, and Gross Margin

	Six Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Cost of goods sold	$ 30,302	$ 35,940	$ (5,638)	(15.7)%
Gross profit	60,866	57,400	3,466	6.0%
Gross margin percentage (gross profit as a percent of revenue)	66.8%	61.5%		

Gross margin percentage for the six months ended June 30, 2017 increased to 66.8% from 61.5% for the six months ended June 30, 2016 . The six months ended June 30, 2016 included a $6.8 million impact of purchase price accounting for inventory acquired in the TriVascular merger. Excluding this impact, cost of goods increased $1.2 million in the six months ended June 30, 2017 versus 2016. This increase is driven by less leverage of fixed overhead due to lower production volume in 2017.

Operating Expenses

	Six Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Research and development	$ 11,264	$ 15,559	$ (4,295)	(27.6)%
Clinical and regulatory affairs	6,575	7,905	(1,330)	(16.8)%
Marketing and sales	49,681	56,742	(7,061)	(12.4)%
General and administrative	16,777	20,156	(3,379)	(16.8)%
Restructuring costs	137	8,114	(7,977)	(98.3)%
Settlement costs	—	4,650	(4,650)	(100.0)%
Contract termination and business acquisition expenses	—	5,905	(5,905)	(100.0)%

Research and Development. The $4.3 million decrease in research and development expenses was attributable to timing of project spending and synergies related to the TriVascular merger.

Clinical and Regulatory Affairs. The $1.3 million decrease in clinical and regulatory affairs expenses are due to synergies related to the TriVascular merger.

Marketing and Sales . The $7.1 million decrease in marketing and sales expenses for the six months ended June 30, 2017 , as compared to the prior year period, was driven by synergies as a result of the integration of the TriVascular sales and marketing organization.

General and Administrative . The $3.4 million decrease in general and administrative expenses is primarily attributable to a decrease in headcount related to synergies as a result of the TriVascular merger. The targeted reductions were initiated to provide efficiencies and realign resources as well as to allow for continued investment in strategic areas and drive growth.

Restructuring Costs. The $8.0 million decrease in restructuring costs for the six months ended June 30, 2017 , as compared to the prior year period is comprised of costs associated with TriVascular executive change in control agreements, severance and retention bonuses as a result of the TriVascular merger.

Settlement Costs. The $4.7 million decrease in settlement costs for the six months ended June 30, 2017 , as compared to the prior year period, was a result of the LifePort settlement in 2016.

Contract Termination and Business Acquisition Expenses. The $5.9 million decrease in contract termination and business acquisition expenses for the six months ended June 30, 2017 , as compared to the prior year period, was primarily related to termination of some of our international distributors as well as deal related expenses associated with the TriVascular merger.

Other income (expense), net

	Six Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Other income (expense), net	$ (13,762)	$ (3,809)	$ (9,953)	>100%

Other Income (Expense), Net. Other expense of $13.8 million for the six months ended June 30, 2017 consists mainly of loss on debt extinguishment of $6.5 million, interest expense of $10.1 million and a favorable change in fair value of contingent consideration related to the Nellix acquisition of $2.6 million. Other expense for the six months ended June 30, 2016 consists mainly of interest expense of $7.6 million associated with our convertible notes and the change in fair value of derivative of $43.8 million, foreign currency loss of $0.8 million and a non-cash expense of $0.1 million which reflects an increase in the fair value of the Nellix Contingent consideration.

Provision for Income Taxes

	Six Months Ended June 30,			
	2017	2016	Variance	Percent Change
	(in thousands)			
Income tax (expense) benefit	$ (276)	$ (175)	$ (101)	57.7%

Our income tax expense was $276 thousand and our effective tax rate was (0.7)% for the six months ended June 30, 2017 due to our tax positions in various jurisdictions. During the six months ended June 30, 2017 and 2016 , we had operating legal

entities in the U.S., Canada, Italy, New Zealand, Poland and the Netherlands (including registered sales branches in certain countries in Europe).

Liquidity and Capital Resources

The chart provided below summarizes selected liquidity data and metrics as of June 30, 2017 , December 31, 2016 , and June 30, 2016 :

	June 30, 2017	December 31, 2016	June 30, 2016
	(in thousands, except financial metrics data)		
Cash and cash equivalents	$ 81,641	$ 26,120	$ 31,448
Marketable securities	$ 10,000	$ 20,988	$ 41,490
Accounts receivable, net	$ 33,118	$ 34,430	$ 36,057
Total current assets	$ 175,816	$ 129,845	$ 155,253
Total current liabilities	$ 62,261	$ 44,902	$ 59,005
Working capital surplus (a)	$ 113,555	$ 84,943	$ 96,248
Current ratio (b)	2.8	2.9	2.6
Days sales outstanding ("DSO") (c)	62	67	64
Inventory turnover (d)	1.5	2.0	2.0

(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 six months ended June 30, 2017 , our operating activities used $28.8 million in cash. This was primarily the result of a net loss of $37.6 million , non-cash operating expenses of $16.9 million , and changes in operating assets and liabilities of $8.1 million . In the six months ended June 30, 2016 , our operating activities used $49.0 million in cash. This was primarily the result of a net loss of $114.5 million , non-cash operating expenses of $60.3 million , and changes in operating assets and liabilities of $5.2 million .

During the six months ended June 30, 2017 and 2016 , our cash collections from customers totaled $94.4 million and $92.1 million , respectively, representing 103.5% and 98.6% of reported revenue for the same periods.

Investing Activities

Cash provided by investing activities for the six months ended June 30, 2017 was $10.2 million , as compared to cash used in investing activities of $47.6 million in the prior year period. For the six months ended June 30, 2017 , cash provided by investing activities consisted of $11.0 million in maturities of marketable securities; offset by $0.8 million used for machinery and equipment purchases. For the six months ended June 30, 2016 , cash used in investing activities consisted of $60.6 million used for the acquisition of TriVascular, $5.0 million used to purchase marketable securities and $1.3 million used for machinery and equipment purchases. This was offset by proceeds from the maturities of marketable securities of $19.4 million .

Financing Activities

Cash provided by financing activities was $73.5 million for the six months ended June 30, 2017 , as compared to cash provided by financing activities of $3.5 million in the prior year period. For the six months ended June 30, 2017 , cash provided by financing activities for six months ended June 30, 2017 consisted of (i) net proceeds from issuance of debt of $113.7 million , (ii) net proceeds from revolving line of credit of $24.3 million ; (iii) proceeds of $2.1 million from the exercise of stock options and proceeds from sales of common stock under our employee stock purchase plan; and (iv) offset by $66.6 million used for repayment of debt. For the six months ended June 30, 2016 , cash provided by financing activities consisted of $3.6 million from the exercise of stock options and proceeds from sales of common stock under our employee stock purchase plan, offset by $0.1 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period.

Credit Arrangements

See Notes 6 and 13 of the Notes to the Condensed Consolidated Financial Statements.

Future Capital Requirements

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

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

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

We believe that our world-wide cash resources are adequate to operate our business. We presently have several operating subsidiaries and branches outside of the U.S. As of June 30, 2017 , these subsidiaries and branches held an aggregate of $8.4 million in foreign bank accounts to fund their local operations. A portion of these balances relate to undistributed earnings, and are deemed by management to be permanently reinvested in the corresponding country in which our subsidiary operates. Management has no present or planned intention to repatriate foreign earnings into the U.S. However, in the event that we require additional funds in the U.S. and must repatriate any foreign earnings to meet those needs, we would then need to accrue, and ultimately pay, incremental income tax expenses on such “deemed dividend,” unless we then had sufficient net operating losses to offset this potential tax liability.

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

Contractual Obligations

Contractual obligation payments by year with initial terms in excess of one year were as follows as of June 30, 2017 (in thousands):

	Payments due by period						
Contractual Obligations	**Total**	**Remainder of 2017**	**2018**	**2019**	**2020**	**2021**	**2022 and thereafter**
Long-term debt obligations	$ 263,278	$ —	$ 18,278	$ —	$ 125,000	$ 40,000	$ 80,000
Interest on Senior Notes and Term Loan	56,613	6,382	12,832	12,421	12,444	6,962	5,572
Operating lease obligations	37,780	1,856	3,317	3,435	3,659	3,692	21,821
Total	$ 357,671	$ 8,238	$ 34,427	$ 15,856	$ 141,103	$ 50,654	$ 107,393

Refer to Notes 6 and 13 of the Notes to the Condensed Consolidated Financial Statements for a discussion of long-term debt obligations and Note 8 of the Notes to the Condensed Consolidated Financial Statements for a discussion of operating lease obligations.

Off-Balance Sheet Arrangements

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

As of June 30, 2017 , 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.

There have been no 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, 2016. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for a discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

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 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The FASB agreed to a one-year deferral of the revenue recognition standard's effective date for all entities. The new revenue standard is effective for us on January 1, 2018. Early application is permitted, but not before the original effective date, which would have been January 1, 2017 for us. 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.

Accordingly, in 2016, we established a cross-functional implementation team to analyze the impact of the new revenue standard. This preliminary analysis included the review of an initial sample of contracts, as well as reviewing current accounting policies and customary business practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts. As we continue to assess all potential effects of the new revenue standard, we currently expect revenue related to the completion of an EVAR or EVAS procedure in hospitals, when the EVAR or EVAS products are implanted in a patient, to remain substantially unchanged. We also plan to select a larger sample from our

population of contracts in search of additional attributes. In addition, we identified, and are in the process of implementing, appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new revenue standard. We currently expect to adopt the new revenue standard in our first quarter of 2018 utilizing the modified retrospective adoption method. We currently do not expect the new revenue standard to have a material impact on the amount and timing of revenue recognized in our consolidated financial statements. We are currently assessing the impact this guidance will have on our financial statement disclosure. The foregoing preliminary assessments or expectations are subject to change pending further analysis through the 2017 year.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory," which requires an entity to measure inventory within the scope of the amendment at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this new accounting standard prospectively in the first quarter of 2017. This new accounting standard did not have a significant impact on our consolidated financial statements.

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 this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which modifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards, and classification in the statement of cash flows. We adopted this standard effective January 1, 2017. As a result, excess tax benefits are no longer recorded in additional paid-in capital and instead are applied against taxes payable or recognized in the condensed consolidated statements of operations. In addition, our income tax expense and associated effective tax rate will be impacted by fluctuations in stock price between the grant dates and vesting dates of equity awards. We also determined that there were no significant changes to disclosure or financial statement presentation and changes in accounting for excess tax benefits and deficiencies were not material as a result of adoption.

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

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. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently assessing the impact this guidance will have on our consolidated financial statements.

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 this guidance will have on our consolidated financial statements.

In May 2017, the FASB issued ASU 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. ASU 2017-09 will be effective for public companies for fiscal years beginning after December 15, 2017, including interim periods. Early adoption is permitted. We are currently assessing the impact 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 have investments in U.S. Government and agency securities, corporate bonds and other debt securities. As a result, we are exposed to potential loss from market risks that may occur as a result of changes in interest rates, changes in credit quality of the issuer or otherwise.

We generally place our marketable security investments in high quality credit instruments, as specified in our investment policy guidelines. A hypothetical 100 basis point increase in interest rates would result in an approximate $7 thousand decrease in the fair value of our investments as of June 30, 2017 . We believe, however, that the conservative nature of our investments mitigates our interest rate exposure, and our investment policy limits the amount of our credit exposure to any one issuer (with the exception of United States agency obligations) and type of instrument. We do not expect any material loss from our marketable security investments and therefore believe that our potential interest rate exposure is limited. We intend to hold the majority of our investments to maturity, in accordance with our business plans.

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

We 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 and paid $2.5 million in termination fees to MidCap.

Our 3.25% Senior Notes and 2.25% Senior Notes bear fixed interest rates, and therefore, would not be subject to interest rate risk. The Capped Call Transactions are derivative instruments that qualify for classification within stockholders' equity because they meet an exemption from mark-to-market derivative accounting. The settlement amounts for the capped call transactions are each determined based upon the difference between a strike price and a traded price of 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 $0.2 million of loss during the three and six months ended June 30, 2017 , primarily related to intercompany payables and receivables associated with our European operations. We expect to reduce our exposure through future settlements.

Market Price Sensitive Instruments. In connection with our merger with TriVascular in February 2016, we issued 13.6 million shares of our common stock as consideration to the former stockholders of TriVascular. As a result of our issuance of such shares in the merger, the quantity of authorized common shares available for future issuance at that time was reduced to a level insufficient to honor all of the potential common shares underlying instruments then outstanding. Such instruments included the conversion options related to the 3.25% Senior Notes and 2.25% Senior Notes, employee stock options, restricted stock units, contingently issuable common stock relating to the Nellix acquisition, and stock warrants. The creation of this authorized share deficiency in February 2016 required us, during the first quarter of 2016, to separate as a stand-alone derivative the 3.25% Senior Notes conversion option and a portion of the 2.25% Senior Notes conversion option for which no authorized shares are available to effect share settlement in the event of a conversion. Accordingly, in February 2016 we re-classed $24.8 million of the equity component of the Senior Notes to derivative liabilities which will be marked to market each period. For the six months ended June 30, 2016 , we recorded $5.1 million as a fair value adjustment of derivative liabilities primarily based on our stock price increasing from $7.42 to $8.36 from the date of reclassification. The value of the derivative liability and our earnings was subject to market price risk until we increased the number of our authorized common shares to alleviate the deficiency. In June 2016, upon the approval of our stockholders, we amended our certificate of incorporation to increase the number of our authorized common shares eliminating the authorized share deficiency.

Item 4. CONTROLS AND PROCEDURES.

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

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 June 30, 2017 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.

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 1, 2017, as well as the information contained in this Quarterly Report and our other reports we file with the SEC. There have been no material changes in the risk factors as previously disclosed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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	
4.1	Form of Warrant to Purchase Common Stock of Endologix, Inc., issued to Deerfield Private Design Fund IV, L.P., Deerfield International Master Fund, L.P., Deerfield Partners, L.P., and Deerfield Private Design Fund III, L.P., together with a schedule of holders and amounts (issued April 3, 2017).	8-K	000-28440	4.1	2017-04-05	
4.2	Registration Rights Agreement, dated April 3, 2017, by and among Endologix, Inc., Deerfield Private Design Fund IV, L.P., Deerfield International Master Fund, L.P., Deerfield Partners, L.P., and Deerfield Private Design Fund III, L.P.	8-K	000-28440	4.2	2017-04-05	
10.1	Facility Agreement, dated April 3, 2017, by and among Endologix, Inc., certain subsidiaries of Endologix, Inc., Deerfield Private Design Fund IV, L.P., Deerfield International Master Fund, L.P., Deerfield Partners, L.P., and Deerfield Private Design Fund III, L.P.	8-K	000-28440	10.1	2017-04-05	
10.2	Credit and Security Agreement, dated April 3, 2017, by and among Endologix, Inc., certain subsidiaries of Endologix, Inc. and Deerfield ELGX Revolver, LLC.	8-K	000-28440	10.2	2017-04-05	
10.3	2015 Stock Incentive Plan, as amended	8-K	000-28440	10.1	2017-06-02	
10.4	Addendum No. 3 to Lease - Net, by and between Endologix, Inc. and Sonoma Airport Properties LLC, dated July 3, 2017.					X
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 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: August 4, 2017

/s/ John McDermott

Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2017

/s/ Vaseem Mahboob

Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.4

THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE (this "Amendment") is dated as of July 3, 2017 (the " **Effective Date** ") by and between Sonoma Airport Properties LLC, a California limited liability company (" **Landlord** "), and TriVascular, Inc., a California corporation (" **Tenant** ").

R E C I T A L S:

WHEREAS , Carmel River, LLC, a Delaware limited liability company, Carlsen Investments, LLC, a California limited liability company, and Rieger Investments, LLC, a Delaware limited liability company (collectively, **"Original Landlord"**) entered into that certain Lease Agreement dated June 16, 2005 (the **"Original Lease"**) with Tenant (in that capacity, **"Original Tenant")** , pursuant to which Original Tenant leased from Original Landlord a total of 110,250 square feet of warehouse and office space located at 3910 Brickway Boulevard, Santa Rosa, California (the **"Premises"**).

WHEREAS , Original Landlord and Boston Scientific Santa Rosa Corp., a California corporation (formerly known as TriVascular, Inc. i.e., the same legal entity as the Original Tenant) (**"BSSRC"**) and Boston Scientific Corporation, a Delaware corporation ("BSC") entered into that certain Consent, Assignment, First Amendment To Lease and Non-Disturbance Agreement (the "First Amendment") dated as of March 28, 2008, pursuant to which: (i) BSSRC assigned its right, title and interest under the Original Lease, as the tenant thereunder, to BSC, and (ii) other terms and conditions of the Original Lease were amended.

WHEREAS , BSC subleased the Premises to Tenant (then known as TriVascular2, Inc., a California corporation) pursuant to that certain Sublease Agreement dated as of March 28, 2008 (the "Sublease").

WHEREAS , Landlord has succeeded to the interest of Original Landlord as the owner of the Premises and the landlord under the Lease.

WHEREAS , Landlord, Tenant and BSC entered into that certain Second Amendment to Lease dated as of December 6, 2011 (the "Second Amendment") pursuant to which: (i) the term of the Lease was extended until February 28, 2018, inclusive; (ii) effective March 1, 2013 BSC assigned all of its right, title and interest as tenant under the Lease to Tenant; (iii) Tenant assumed all obligations of "Tenant" under the Lease; and (iv) the Sublease terminated effective as of February 28, 2013. The Original Lease as amended by the First Amendment and as further amended by the Second Amendment shall be referenced herein as the **"Lease."**

WHEREAS , the Lease by its terms expires on February 28, 2018, and Landlord and Tenant desire to extend the term of the Lease and to modify certain other terms and provisions of the Lease, as more particularly set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. **Recitals; Defined Terms.** The foregoing recitals are true and are incorporated herein by this reference as though set forth in full. Unless otherwise expressly defined herein, all initially-capitalized terms used herein shall have the meanings ascribed to them in the Lease.
2. **Term of Lease** . The Term of the Lease shall be extended for an additional period of five (5) years commencing on March 1, 2018, and continuing through February 28, 2023, inclusive (the "Extended Term").
3. **Monthly Base Rent.** The Base Rent for the Extended Term shall be as follows:

Months	Monthly Rent
3/1/2018 to 2/28/2019	$81,270 ($0.86/sf) (See Section 5)
3/1/2019 to 2/28/2020	$83,160 ($0.88/sf) (See Section 5)
3/1/2020 to 2/28/2021	$97,020 ($0.88/sf)
3/1/2021 to 2/28/2023	$101,430 ($0.92/sf)

4. **Additional Rent.** In addition to the obligation to pay the Base Rent provided above, the Tenant shall be obligated to pay any and all additional rent and other charges payable under the terms of the Lease as computed and provided for under the terms of the Lease (except as otherwise amended by Section 5 of this Amendment) during the entire Extended Term.

5. **Free Base Rent Period .** In consideration of Tenant's election to extend the Lease pursuant to this Amendment, Landlord has agreed that the Tenant shall be entitled to a free Base Rent period for the months of March and April of 2018 (the "Free Base Rent Period"). During the Free Base Rent Period, Tenant shall have no obligation to pay any Base Rent but Tenant shall remain obligated to pay all other Additional Rent as required under Article Four of the Lease. Also in consideration of Tenant's election to extend the Lease pursuant to this Amendment, Tenant shall be exempt from paying Base Rent on the mezzanine space consisting of 15,750 square feet located within the Premises for a period of twenty-four (24 months) commencing on March 1, 2018, through February 28, 2020 (the "Reduced Base Rent Period"); thus, for purposes of calculating Tenant's Base Rent obligation (and not Tenant's Additional Rent obligation) during the Reduced Base Rent Period, the Premises shall be deemed to consist of 94,500 square feet.

6. **Option to Renew.** Tenant shall have one (1) option to extend the Term of the Lease beyond the Extended Term provided in Section 2 of this Amendment pursuant to the terms and provisions of Article 16 of the Lease except that the parties hereto agree that said Article 16 is hereby amended to: (i) acknowledge that the additional extended term referenced in this paragraph shall be for the period commencing on March 1, 2023, through February 28, 2028; (ii) the Renewal Notice Deadline (as referenced in Section A of Article 16) shall be no later than six (6) months before the expiration of the Extended Term (or August 31, 2022); and (iii) the last sentence of Subsection (A)(1) of Article 16 shall be modified to read in part, "…provided, however, that Base Rent payable during the first year of such extended Term shall in no event be less than $.87 per square foot, increased thereafter as stated herein." Aside from the option to renew provided in this Section 6, Tenant shall have no further right to extend the term of the Lease.

7. **Amortization of Certain Capital Improvements.** Pursuant to Section 4.05(e) of the Lease, Tenant is required to pay Tenant's Pro-Rata Share of all Common Area costs in the manner described in Section 4.05(e) of the Lease. Landlord and Tenant hereby amend the Lease to provide that to the extent any Common Area costs are for single items considered to be capital improvements or capital replacements under generally accepted accounting and management practices each with a value of Fifteen Thousand Dollars ($15,000.00) or more, the cost of such capital improvements/replacements shall be amortized over the useful life of such improvement/replacement, or twelve (12) years, whichever is greater.

8. **AS-IS Condition.** Tenant acknowledges that Tenant has been occupying the Premises pursuant to the Lease and Tenant accepts the Premises in its AS-IS condition and "WITH ALL FAULTS" for the Extended Term and that, except for Landlord's ongoing maintenance obligations pursuant to Section 6.03 of the Lease, repair obligations pursuant to Article 7 of the Lease and compliance obligations pursuant to Article 15 of the Lease, Landlord shall have no obligation to improve, remodel, alter, repair, replace or otherwise modify the Premises or provide or pay for any tenant improvements during the Extended Term.

9. **Tenant Status.** As a material inducement to Landlord entering into this Amendment, Tenant certifies to Landlord that as of the Effective Date: (i) the Lease, as modified hereby, contains the entire agreement between the parties hereto relating to the Premises and that there are no other agreements between the parties relating to the Premises, the Lease or the Project which are not contained herein or in the Lease; (ii) to the best of Tenant's knowledge, Landlord is not in default in any respect in any of the terms, covenants and conditions of the Lease; and (iii) to the best of Tenant's knowledge, Tenant has no setoffs, counterclaims or defenses against Landlord under the Lease.

10. **Landlord Status.** As a material inducement to Tenant entering into this Amendment, Landlord certifies to Tenant that as of the Effective Date: (i) the Lease, as modified hereby, contains the entire agreement between the parties hereto relating to the Premises and that there are no other agreements between the parties relating to the Premises, the Lease or the Project which are not contained herein or in the Lease; (ii) to the best of Landlord's knowledge, Tenant is not in default in any respect in any of the terms, covenants and conditions of the Lease; and (iii) to the best of Landlord's knowledge, Landlord has no claims against Tenant under the Lease.

11. **Confidentiality.** The parties covenant and agree to keep the terms and conditions of the Lease and this Amendment in confidence and expressly agree not to disclose the terms of the Lease or this Amendment to any person whatsoever, including, without limitation, the general public; provided, however, that the parties may disclose such information to their respective employees, attorneys, or accountants provided such recipient agrees to keep such information confidential, as required by this Section 11.

12. **No Broker.** Except for CBRE, Inc. (**"Tenant's Broker"**) who is representing Tenant relative to this Amendment, Landlord and Tenant each represent and warrant to the other that it has had no dealings with any other broker, finder, or similar person who is or might be entitled to a commission or other fee in connection with this Amendment. Each party shall indemnify, defend, protect and hold harmless the other party from and against any and all obligations or liabilities to pay any real estate broker's commission, finder's fee, or other compensation to any person or entity arising from or in connection with this Amendment which results from any act or agreement of such party. Notwithstanding the foregoing, Landlord shall be responsible to pay a commission to Tenant's Broker for this transaction pursuant to the terms and conditions of a separate written agreement between Landlord and Tenant's Broker.

13. **Conflict.** This Amendment is and shall be construed as a part of the Lease. In case of any inconsistency between this Amendment and the Lease, the provisions containing such inconsistency shall first be reconciled with one another to the maximum extent possible and then, to the extent of any remaining inconsistency, the terms of this Amendment shall be controlling.

14. **Force and Effect.** Except as set forth in this Amendment, the terms and conditions of the Lease shall remain unchanged and in full force and effect.

15. **Counterparts; Authority; Electronic Signatures.** The parties agree that this Amendment may be executed in multiple counterparts which, when signed by all parties, shall constitute a binding agreement. The parties further represent and warrant that each natural person who is executing this Amendment on its behalf has the full power and authority to execute this Amendment and to bind it to the terms hereof. Signatures to this Amendment transmitted by telecopy or electronic mail shall be valid and effective to bind the party so signing. Each party agrees to promptly deliver an execution original of this Amendment with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Amendment, it being expressly agreed that each party to this Amendment shall be bound by its own telecopied or electronically-mailed signature and shall accept the telecopied or electronically-mailed signature of the other party to this Amendment.

IN WITNESS WHEREOF , the undersigned have executed this Amendment as of the date indicated above.

LANDLORD:

SONOMA AIRPORT PROPERTIES LLC,
a California limited liability company

By: /s/ Ron Profili
Name: Ron Profili
Title: Owner/Manager

TENANT:

TRIVASCULAR, INC.,
a California corporation

By: /s/ Vaseem Mahboob
Name: Vaseem Mahboob
Title: CFO

Exhibit 31.1

Certification of Chief Executive Officer

I, John McDermott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Endologix, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

By: /s/ John McDermott

John McDermott

Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

I, Vaseem Mahboob, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Endologix, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

By: /s/ Vaseem Mahboob

Vaseem Mahboob

Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of Chief Executive Officer

Pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, John McDermott, certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 that:

(1) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 780(d)); and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2017

By: /s/ John McDermott

John McDermott

Chief Executive Officer

This certification accompanies the Quarterly Report pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section.

Exhibit 32.2

Certification of Chief Financial Officer

Pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Vaseem Mahboob, certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 that:

(1) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 780(d)); and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2017

By: /s/ Vaseem Mahboob

Vaseem Mahboob

Chief Financial Officer (Principal Financial and Accounting Officer)

This certification accompanies the Quarterly Report pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section.